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Local Finance in India

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TO

ACHYUT (A. S. PATWARDHAN)

PREFACE

The problems of local finance are, it will be readily admitted, of fundamental importance for our national reconstruction. The country is at present passing through one of the most critical stages of our national history. The problems of local finance have been dealt with in this book on two basic assumptions. One, that India is going to attain complete freedom and the other it is indivisible. It is now being assumed that we are on the eve of attaining complete freedom. The conditions are favourable and omens good; and yet it would be sheer folly to take it for granted that our freedom is as good as won. It should be clear to all discerning students of our national problems that stupendous difficulties have still to be surmounted before we can feel that fight for freedom is over and we can go ahead with the task of national rehabilitation and reconstruction. The other assumption, it is obvious, is not valid beyond question. The very thought of the country being divided is painful to all real patriots; but division of the country is a possibility that has to be reckoned with though we have to do our best to strive for the realization of our long-cherished hope of a free and united India.

The future is not at all assured and yet we have to proceed with the study of urgent national problems with faith and confidence that we can and will shape the destiny of our people. The problem of local finance is one of the most urgent problems of our national life. If

India is to be a creative democracy, local self-government has to become a reality. It must be the very foundation of our entire national superstructure and derive its strength and power for growth from the pulsating life of the nation. Local finance is in essence an aspect of the entire life of our people and can contribute to the re-making of our country if it is approached with clear appreciation of its organic connection with national life in the country.

All the world over the problems of local self-government and local finance are presenting themselves in a new form owing to the new content which they have acquired due to the growing integration of the life of the people. The issues to which they give rise are paradoxical in character and cannot be solved without social craftsmanship of the highest order. This is much more true of our country which has to take a re-birth in the real sense of the word. The solution of the problems of local finance, as of all major problems of our national life, call for practical vision and synthetic insight. This book has been written in the hope that we as a people will rise to the need of the hour and make good. It is earnestly hoped that it has not been written in vain. The concrete suggestions have only such value and utility as any constructive suggestions can have when everything is in a state of flux and the future is being shaped by forces whose course is truly unpredictable.

I have to express my sense of indebtedness to my wife Anasuya Wagle—for the assistance that she has given me in seeing the book through the press.

October 13, 1946 GYANCHAND

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LECTURE I

THE PROBLEM

In view of the imminence of important political changes it is necessary to review the financial position of the local authorities in India, which have, as is universally admitted, to play an increasingly important rôle in the political life of the country. The local self-governing institutions are generally regarded as schools of democracy, and this function of theirs has been duly stressed in all official pronouncements on the subject of local self-government ever since the famous 1882 Resolution of Lord Ripon. It was once held that political freedom of India had to depend upon our making self-government a reality, and the weakness of the local bodies was urged as an argument against constitutional advance in the wider spheres of government. Though this argument is now outside the range of practical politics, it is necessary to remember that 'responsible institutions', to use the words of the Montague Chelmsford Report, "will not be stably rooted until they become broad-based."[1] India has to embark upon a programme of all-round national reconstruction if the new freedom is to fulfil the hopes which it has aroused. In the spheres of health, industry, and education the country has to make a rapid headway, and the tempo of progress has to be determined not only by our own needs, great and urgent as they are, but also by the necessity of keeping pace with the march of world events. It will be necessary to have a national plan and programme, and among the agencies which will be entrusted with the task of their execution, the local

[1] *The Montague Chelmsford Report*, para 192.

bodies will easily have the foremost place. Their weakness will not only hinder the political development of the country but also react adversely on our progress in all other spheres of national life. They have to be strong as the nation cannot come to its own unless they, in the spheres assigned to them, show the necessary vitality and efficiency in the discharge of their duties.

The great potential importance of the local bodies carries with it the necessity of recognising the fact that their present position is not at all reassuring. In the last two decades each Province has taken steps to enlarge the powers and resources of the local bodies. There exists a certain amount of internal control in one or two Provinces which is at variance with the spirit of the new laws; but, on the whole, it can be said that if the present position of the local bodies is not what it might and should be, it is not due to the limitations of their powers imposed from above. They are charged with duties and functions which give them all the scope that they need for the exercise of their initiative and enterprise, and their powers are wide enough to enable them to play their rôle with distinction and ability provided they are properly manned and intelligently directed. The inadequacy of their resources, which is the crux of the whole problem of local finance, presents, of course, a difficulty against which we will have to struggle for years to come; and it is, at present, the most serious obstacle in the way of the local bodies. But a new chapter has to be written in the history of local self-government and, therefore, of local finance, and for that the need of approaching the subject from the right standpoint is as great as that of finding more expansive sources of revenue for the urban and rural local authorities.

The advanced students of political science are up against a problem the inherent contradictions of which make the revision of political theory and practice a matter of urgent necessity. There is on the one hand the need for greater decentralisation, political and administrative. Poli-

tical decentralisation is necessary because the fatuity of ballot-box democracy becomes more and more evident by the utter incompetence of those whom this method very often places in a position of authority. The fact that the issues with which they are called upon to deal become graver and more baffling every day provides a background which makes the ineptitude of the men in power all the more patent; but the difficulty is there and inherent in the facts of the situation and has to be surmounted. The criticisms of progressive political scientists like Follet and Mc'Iver and thinkers like H.G. Wells and Shaw have focussed the attention of thoughtful men and women on the nature of the problem and the need for finding a solution for it.[1] But illuminating as these attacks are from a negative standpoint, they do not offer a solution of the problem itself. If autocracy and dictatorship are to be ruled out as methods of government, it is not easy to find a fair substitute for the existing methods of ascertaining and registering the will of the people. It may perhaps be possible to help the individual to assert his independence against the overpowering influence of the mass mind by limiting the range, vertically and horizontally, of the principle of direct election. Democracy has already fallen into disrepute; and if it is not to be discredited still further in the eyes of those who are looking for new methods of saving the world from itself, decentralisation, in some form or the other, seems to be highly desirable and almost inevitable.

There is, however, a much more practical reason for

[1] H. G. Wells, for example, in his *Democracy Under Revision* speaks of the phase of Democracy as a release having come to an end and of the beginning of the phase of Democratic Synthesis, 'a great religious-spirited phase'; and he pins his faith on 'a profoundly serious minority in the mass of generally indifferent species.' As an analysis of the situation and a statement of the need of the hour, all this is profoundly true, but as a constructive proposal it seems to suggest the need for rule by the caste of New Sumurai —an enlightened, disciplined, and consecrated minority and, in contemporary context, has a definitely reactionary flavour.

vital fact in all schemes of political and social reorganisation. The American constitution, we are often told, is as out-of-date as the stage-coach which was its contemporary in the year of its inauguration and provided the necessary basis for its practical working. The old divisions and subdivisions of America are still there, and federal and state centralisation which has been proceeding rapidly in the last two or three decades has had to reckon with the rigidity of the constitutional framework and the difficulty of weaning people from the parochial outlook suited to a bygone age. The fact that the metropolitan area of New Jersey is divided into one hundred and forty separate self-governing units is not only its own condemnation but also a correct measure of the need for scrapping the old-world notions of local self-government.[1]

'In England the utter lack of symmetry and system in local administration is a matter of common knowledge, and but for the control exercised by the Central Government would have given rise to an amount of waste and duplication of local effort and expenditure and made the existing position even more irrational than it is in actual practice. The control exercised over the local authorities by the Prefect in France and the District President in

[1] There in an area which is, roughly, 20 miles in width and 35 miles in length and has a population of about 2 millions, there are 140 municipalities. "This means", to quote from the New Jersey County and Municipal Taxation and Expenditure Commission Report, "140 governing bodies, levying taxes and trying to supply governmental services; 140 sets of overhead organisation, 140 separate police departments, 140 agencies struggling with sewage disposal, streets, roads, health, sanitation, and recreation. It means 140 different agencies which are issuing bonds; 140 separate civic or city halls and other public buildings, large and small." *The New Jersey Commission* on County and Municipal Taxation and Expenditure Report I, p. 47. One can understand what the Commission mean when at another place in their Report they say that New Jersey local government is still based on design appropriate to horse and buggy age, and condemn the 'crazy quilt' pattern of municipal boundaries.

Prussia[1] is due to their bureaucratic traditions, but now has its justification in the needs of the times; and though it may now be necessary to change its character, its purpose has the sanction of the facts of to-day and can be rationalised but not radically altered. The same is true of other countries so far as the available knowledge of their systems of local government makes it possible to form any opinion of their recent developments. The relative destruction of space has as one of its obvious results a corresponding change in the significance of spatial limits and limitations.[2]

That, of course, in the realm of local self-government means that the distinction between national and local functions, always a little elusive and ill-defined, has become very shadowy indeed, and has hardly any bearing on the facts of the case. Apart from the fact that the

[1] Dr. W. A. Robson in his "Development of Local Government" draws a pointed attention to the existing chaos and confusion in local government in England, and states why the defect has not been remedied so far. To quote his own words, "Corporal personality perpetuates itself by its very nature, and thus former tendencies have become fossilised in the structure of local government Only a continuous or periodic survey of the structure could have prevented or cured the present confusion, and this has never been attempted." W. A. Robson, *"The Development of Local Government"*, p. 27. The fossils of former tendencies are embedded in the structures of local government in many other countries, and make readjustment so very difficult. In India, however, as stated a little later, this difficulty, though not entirely absent, can probably be more easily surmounted than in countries like the U. S. A. and England.

[2] Dr. Robson's remarks on the point are worth quoting. He says, "With the improved methods of communication now available....the area of local consciousness has been enlarged and is even now increasing in size. It would be strange indeed if this enlargement of the mental and material horizon of a society were not communicated, or capable of communication, to the institutional framework of local government." Ibid., p. 59. The enlargement in the material horizon of the people is much greater and more real than in the mental, and the lack of correlation between the two is at the root of more than half the troubles of the world.

vitality of every local unit must, as a matter of course, be a matter of national importance, it is not at all easy to define what is of purely local interest and importance. In matters relating to health, education, and communications—the three functions which have everywhere been assigned to the local authorities—the overshadowing importance of national interests is becoming more and more apparent every day. The necessity of maintaining a national minimum of efficiency in the discharge of these functions by the local authorities exists not merely because all local units have to be kept up to the same level of efficiency, but because they are essentially national functions, and the well-being of the entire nation depends upon the adequacy with which they are discharged. The national government in Great Britain have, according to Sydney Webb, 'bought' the right of supervision over the local bodies by developing a system of grants-in-aid. The increasing importance of grants, not only in the national economy of Great Britain but also of every other country is, as it will be pointed out a little later, due as much to fiscal necessity as to the need for central supervision; but even if the local authorities are in a position to do without the contributions from the central exchequer, the central government in any country cannot treat these important services as matters of local interest only. These are vital services in the literal sense of the word. The very life of the nation depends upon and is conditioned by them, and the nation has to safeguard the interest of its own existence and progress by having a unity of principle and policy in all matters affecting these services. There are functions like street-lighting which can be regarded as more of local than of national importance; but they are relatively speaking unimportant, and in most of the services assigned to the local authorities the national standpoint is of primary importance and has to be properly appreciated in the theory and practice of local self-government.

This fact accounts for the extent to which the central

governments in all countries have had to assume the responsibility for ensuring the efficiency of the local authorities. This means a larger measure of centralisation than has existed in most countries until very recently which, of course, brings with it the danger of this tendency being allowed to undermine the very foundations of local self-government. The need for making use of local interest and local knowledge for carrying on the administration of every country is now greater than ever. This is so because in the interests of efficiency as much as of education in citizenship, it is essential that the administration should not become top-heavy. Local initiative and enterprise have to be as fully developed as possible and utilised for the well-being of the community. An over-centralised political system may, it is now clearer than ever, assume the semblance of efficiency for a short time and seem to work marvels, but the very conditions of social life to-day render it highly problematical whether such a system can endure or provide the essentials of stability and progress. Every centralised system has in it the possibilities of a speedy decay and, without a broad base, must in spite of its apparent strength, collapse under its own weight.

This brings us face to face with the central difficulty, the paradox of current political theory and practice. The world to-day seems to need centralisation and decentralisation equally and at the same time. It is not easy to reconcile these mutually incompatible ends. The difficulty is real and fundamental, but has to be surmounted. It would be merely platitudinous to say that we have to avoid the extremes and find the middle path. It is very difficult to formulate a principle which will combine the merits and avoid the demerits of both centralisation and decentralisation. But if we are alive to the needs of the situation and constantly bear them in mind in the discussion of general principles and specific questions, it is possible that we may in practice be able to arrive at a position of equilibrium as stable as it is possible to

get in this extremely unstable world of to-day. There will always be rough edges or loose ends in any system that we can introduce or may bring into operation. There is no substitute for constant vigilance in any system of self-government or local self-government. The antithesis between self-government and good government is generally presented in a way as to make the former the more fundamental of the two, and in the best sense of the word that is so; but practically speaking, it is idle to ignore the fact that without good government self-government often becomes illusory and is generally not even good self-government. The balance between centralisation and decentralisation is necessary in the interest both of good and self-government and has, as already stated, to be achieved by what may be called unitary empiricism —opportunism guided by a clear understanding of the essentials of the position as a whole.

The system of local self-government in India is not well developed, but that very fact has advantages of its own from the standpoint of reconstruction. A bureaucratic system has, during the last sixty years, been trying, at times as a matter of principle but more often of expediency, to develop within itself its own negation. According to Marxian philosophy 'negation of negation' is a working principle of life and society, and accounts for the emergent evolution of economic and political systems. This may or may not be so; but in a system in which bureaucracy was all in all, the attempts to foster local self-government were bound to suffer from the lack of the very atmosphere in which the latter could live or have its being. It is, therefore, hardly surprising that local self-government began to draw air into its lungs only when the nation felt irresistibly an urge for self-realisation from within—i.e., when the national movement acquired the will and power to assert itself as an autonomous force in the country. It was too much to expect that the system of local self-government could really thrive under conditions which were essentially

intended to preserve the bureaucratic regime. The negation of a system may grow within it but cannot be developed by it.

The future development of local self-governing institutions can be regarded as a new chapter in the history of local self-government in India. This is, in the first place, due to the enactment of legislation by the Provinces in pursuance of the policy laid down by the Government of India in their resolution of 1918. But more than that it is due to the new spirit that is abroad in the country and has changed the conditions under which political institutions have to work in the future. The cumulative effect of the recent legislation, the new spirit, and the will to freedom is that the conditions which were cramping the growth of local self-government are fast disappearing and there is a reasonable prospect of reconstruction becoming a real growth from within. The change will throw the local self-governing institutions upon their own resources and reveal both their strong and weak points. The history of the last twenty years is, as a matter of fact, the record of the achievements and failings which may be taken as an indication of the road which we are likely to traverse in the near future. In the domain of local self-government we have not gone very far, but far enough to get a general idea of the trend of future development.

While the system of local self-government in India has reached a point of development which makes it possible for it to grow internally, the difficulties which, in some other countries, are complicating the process of readjustment to the changing conditions do not exist in India. This is due to two causes. One is that the fact, that the local bodies have, until comparatively recently, been under official control and their administrative and financial powers have been circumscribed within very narrow limits, makes them more easily amenable to central supervision and coordination. This is a negative quality of the positive fault of the system as it has existed in the past; but it is a quality

which can be turned to some account. Even when the local authorities do not possess inherent rights, as they do not in most countries, the traditions of independent action which they have inherited, make it necessary for the central authorities to be very cautious in applying any general regulative principles in the interest of the common good. The result is that compromises and half-measures have had to be adopted which generally fall short of the needs of the situation and do not produce the desired effects. This is an advantage upon the existence of which we can hardly congratulate ourselves for it means that some of the very essentials of local self-government are still lacking in India. But it is an advantage all the same and has to be made the most of. We have had to pay a heavy price for bureaucratic centralisation in India in the past, but it is wise to pay due regard to the need for proper integration of local and central authorities in the changes in the system of local government rendered necessary by the increasing social purpose of to-day.

The other reason which gives us a position of advantage in dealing with our local authorities is also due to the backwardness of local self-government in India. In spite of the progress of local self-government in some of the larger cities, the fact remains that in the smaller urban and rural areas the edifice of local self-government is still very weak, and in the villages, where the foundation of the whole system must, as the Decentralisation Commission pointed out,[1] be laid, local self-government is prac-

[1] "We are of opinion also that the foundation of any stable edifice which shall associate the people with the administration must be the village, as being the area of much greater antiquity than administrative creations such as Tahsil and one in which the people are known to one another, and have interests which converge on definite and well-recognised objects like water-supply and drainage. It is probable, indeed, that the scant success of the efforts hitherto made to introduce a system of rural self-government is largely due to the fact that we have not built up from the bottom." *Decentralisation Commission Report*, Vol. I, para 699.

tically non-existent. The smaller cities may have embryonic municipalities, but their resources and possibilities are exceedingly limited and they cannot assume any large responsibilities. The District Boards are not and cannot be, as is admitted, suitable units of local self-government in the rural areas.[1] In their size and population some of our districts are comparable to small countries[2] and this fact, more than anything else, accounts for the poor development of local self-government in these areas. The sub-district boards exist in some of the Provinces; but in spite of the recommendation of the Decentralisation Commission, they have hardly any place in the system of local self-government in India. Without any resources or even well-recognised functions of their own, they are, in the Provinces, in which they exist unnecessary appendages; and their progressive abolition has almost passed unnoticed in most Provinces. The importance of creating self-governing bodies in the villages is a matter with regard to which there cannot be any difference of opinion. The general belief that the village Panchayats have been the most stable factor in our political history has invested them with a halo of glory, which makes their revival almost look like a historic mission; but so far we have been able to create Panchayats only in a few thousand out of seven hundred thousand villages in India; and, what is more, their actual working has only brought out the extreme difficulty of making them efficient instruments in the stupendous task of rural reconstruction. In spite of the existence of thousands of urban and local authorities, amongst which are included municipalities like Bombay, Calcutta, and Madras Corporation, it has to be admitted

[1] According to the census of 1931, Mymensing has a population of 5,129,664 and area of 6,300 sq. miles. In Bengal the average population of a district is about 1¾ millions, and in India a very large number of districts have got a population of over a million.

[2] "We desire, therefore, to see sub-district boards universally established as the principal agencies of rural board administration." *Decentralisation Commission Report*, Vol. I, para. 736.

that a really well-developed system of local self-government does not exist in India and has to be created.

The advantage of the position, of course, is that in building up the new system we will not be hampered by the past. The prime need of the system, as it has to be developed, will, it is obvious, be civic ardour and public spirit. But that in itself will not give us an efficient system. There will also be need for regionalisation—for creating units of local administration which will answer the needs of the times. The towns and villages will not only require central co-ordination but also co-operation among themselves for the discharge of functions which require enlarged units of local administration. This co-operation may be promoted by having joint boards of autonomous bodies, by constituting new *ad hoc* bodies for the discharge of specific functions or by having omnibus authorities with wider jurisdiction. It may be necessary to use any or all of these methods for developing the new technique of local government. The different cases will, as a matter of fact, require different treatment, and freedom of action to use them, as fully as may be necessary, has to be retained. The important fact which we have to remember is that this freedom already exists. The need for regionalisation exists everywhere, but it is not easy to carve out new units of administration owing to the existence of the stereotyped old divisions and subdivisions which, though no longer suitable, determine the framework of the system. There is a danger of creating artificial entities without any vitality, if efficiency is the only guiding consideration in creating new units; but it is not possible to vitalise the old fossils. There is need for creating new organic unities, but this can only be done by having units which have functional integrity of their own. In rural areas this can be done without any difficulty, and in cases in which it is necessary to make cities and towns integral parts of larger units for special purposes, it will be easy to provide for extra-mural co-operation. There will be a few cases, of course, in which the local prejudices will come in the way of

the larger harmony and efficiency; but on the whole it can be assumed that new regional units of local self-government can be evolved without any local upheavals.

In other words, we have the advantage of being able to make a fresh start. Local self-government can now be made a reality by being a part of the whole scheme of national self-government. The legislation enacted in the Provinces has already created conditions favourable for the growth of local self-government. The new constitution will, of course, carry the process further. We have to bear in mind not the competing but the complementary needs of centralisation and decentralisation. In view of the fact that in India the local authorities are amenable to central control, the control, which already exists, should be relaxed so far and only so far as is necessary to give them the latitude of action required for their healthy growth. The territorial readjustment which may be necessary in the interest of functional efficiency can also be adequately provided for on account of the fact that the local bodies, as they exist now are not likely to present any difficulties in the way of such readjustments. If the supreme need of making the local bodies really self-governing is borne in mind, we can proceed with the task of building up the new system of local self-government with the assurance that it can go on fairly smoothly without our having to contend with narrow short-sighted parochialism. This argument is, of course, based on the assumption that the more important problem of national self-government will be much nearer solution, if not actually solved, in the near future.

These general considerations have, it need not be specifically stated, an important bearing on the financial position of the local authorities. If finance is not merely political arithmetic, as it is not, it must be an expression of the inner purpose of political institutions. As a matter of fact, the need for readjustment in the system of local self-government has become pressing everywhere because of the complications arising from the necessity of adapt-

ing the systems of local finance to the changed and changing conditions of the times. The underlying necessity of integrating political institutions on account of the integration of the whole economic and social life is, of course, there; but it has become much more acute on account of the necessity of radical changes in the realm of local finance to enable the central and local governments to function harmoniously and in the best interests of the community.

The rapid growth of local expenditure is, as is well known, one of the causes of the need for financial readjustments. The growth of local expenditure has everywhere outrun the growth of local revenues. The causes of the disparity are also well known. The local bodies are now expected to do much more for their citizens than before. In matters relating to health, education, and roads the progress made in the standards and technique of these services has enormously increased their liabilities. In health services preventive and conservancy measures have become much more important and expensive than the relief measures; and the civic efficiency of the local authorities is measured by the extent to which they can reduce the death rate. Education has ceased to be merely a matter of the three R's, and with all the demands that modern theories of education make on the resources of the educational institutions, it is inevitable that the expenditure should increase, as a direct outcome of this change in outlook. The replacement of the metalled roads by the tarred and cement roads and the necessity of a uniform standard of construction on the arterial roads, besides, of course, making it necessary for the central authorities to exercise considerable supervision over the road-making activities of the local authorities, involve expenditure which, in most cases, is beyond the means of the latter. The cultural activities which the local authorities are now expected to undertake are as expensive as they are desirable. The German cities, which gave the lead in this, as in so many other matters, were still ahead of the local

authorities in other countries before the advent of the Fascist regime but the local authorities everywhere are striving to provide cultural amenities and vying with one another in their desire to become centres of culture, if not of learning. It is a matter of legitimate civic pride for a city to have auditoriums, theatres, libraries, and museums; but they all entail heavy expenditure and strain further the financial resources of the local authorities.

The other cause of the expenditure of the local bodies being in excess of their income is also equally well known, though its implications are generally not fully appreciated. The economic forces are making for fiscal centralisation; or, in other words, on account of the complete breakdown of local economy, the administration of the most productive sources of revenue has to be undertaken by the central authorities. That also makes it exceedingly difficult to trace income to its source, and assign to the local authorities incomes which have purely local origin. The fact that the local authorities are everywhere depending more and more upon the central authorities for their revenues is due to the working of this cardinal factor. This dependence takes the form not only of large grants-in-aid to the local bodies but a much wider recourse to the method of the apportionment of the yield of the common sources.

The most important source of revenue of the local authorities is the taxation of the capital or rental value of real property. But this source is not expansive and the burdens which it has to carry are out of proportion to the capacity of the local tax-payer. It is, therefore, necessary to give him relief and supplement local revenues by assignments from the central revenues. The de-rating scheme of 1929 transfers in England fiscal burdens from the local tax-payer to the central exchequer. This is its main purpose and the criterion of needs had had to be adopted as the basis for the distribution of the larger grants because this is the only equitable basis for making assignments from the common pool. In the U.S.A., thirty years

ago the reform of state and local taxation was initiated by introducing what was then called the system of separation of revenues. The inadequacy of this method has led to the adoption of another and opposite line of reform, and the system of shared revenues has become a common feature of state and local finance in America.[1] In Europe the common method of raising local revenues has been the superimposition of surtaxes on central taxes by the local authorities. This method is still important; but there the significant development of the post-war period in local finance has been the increasing reliance on assignments, or 'deductions' as they are called in Soviet Russia, from central revenues for local purposes. In Germany[2] and Russia[3] fiscal centralisation has been carried much further than any other country and their assignments from central treasury are much more important for local purposes; but the trend of development is the same in other coun-

[1] Miss Mabel Newcomer has given statistics of the state-administered taxes paid over to the local authorities in her article on "Tendencies in State and Local Finance" (Vide *Pol: Science Quarterly*, Vol. XLIII. No. I, March 1928). These receipts increased from 16 million dollars in 1912 to over two hundred million dollars in 1925. Since then several other States have adopted the system of shared revenues and thereby increased the relative importance of such receipts.

The Californian Tax Commission after reviewing the history of the movement of the separation of revenues in California and other States of the U. S. A. come to the conclusion which may be given in their own words. "The conclusion," they say, "is inescapable that, although the adoption of the plan of separation of sources did bring about a substantial improvement as compared with the situation as it existed previously, the course chosen, far from being 'the one feasible pathway to tax-reform' has proved to be a blind alley. Before further progress can be achieved this pathway must be retraced a considerable distance and a fresh start made."

The Californian Tax Commission 1929 *Final Report*, p. 52.

[2] Vide *Local Government Abroad*, July 1928. Municipal Finance III. Germany.

[3] Sokolnikov. *Soviet Policy in Public Finance*, Chapter IX.

tries and is accounted for by the fact that the same forces are at work everywhere.[1] Local revenues are, it is now clear, inadequate for local purpose because the word 'local' has changed its meaning in actual practice. It is now a convenient but not a 'generic' term. Local needs are more national than local, and local revenues cannot be derived from purely local sources, because taxes which are exclusively local in their incidence and effects are, relatively speaking, unimportant.

The same two reasons account for the growing importance of the grants-in-aid, general and specific, in local finance and for the changes in the basis of their distribution. The question of grants will be dealt with in its proper place; but it is necessary to point out here that the distribution of grants according to needs, which is becoming more and more common everywhere, is a method for the equalisation of resources and opportunities and is a virtual admission of the fact that where money has to come out of a common fund to which all localities have contributed according to their capacity, it has to be distributed according to needs, as local contributions are lost in the general inflow of public revenues from all sources and quarters and cannot be allocated on the basis of origin. This method of giving grants has risks of its own, but they need not be discussed here. Its bearing upon the question of finding a workable mean between centralisation and decentralisation is, however, obvious and shows the importance of the forces which make it necessary for us not to let our horizon be bounded by local factors in our treatment of the problems of local finance.

The position in India in the sphere of local finance is the same as in other countries, or rather our problems of local finance, though essentially identical, are much

[1] Fiscal Centralisation not only affects the inter-relations of the state and local governments but also those of the federal and state governments. For a fuller treatment of the subject see Gyan Chand, "*The Essentials of Federal Finance*", pp. 176-186.

more difficult and call for much greater constructive insight and ability. The problem of local finance, which dominates all the rest, is the problem of finding money for the task of national reconstruction which has, in such a large measure, to be carried out through the agency of the local authorities and with their enthusiastic co-operation. There is no limit to the amount of expenditure which can be usefully incurred in renovating the life of the nation; and overwhelming as the task is, its magnitude is also the measure of the importance of studying the problem of local finance with a view to explore all possibilities of overcoming its difficulties.

The resources at the disposal of the local authorities even at present are many and various. Besides the tax on real property, they have consumption duties and even local income-tax under different names. Very few of them have remunerative undertakings of their own; but the Acts, by which they are governed, do not prevent them from embarking upon these ventures. The levy of taxes on social surplus, i. e., taxes on increase in the capital value of property owing to the improvements financed by the local authorities or the general progress of the community, are almost unknown. But this again is a source which they are allowed to tap for augmenting their revenues. In spite of the variety of resources, that they can develop, almost all of them are unable to adopt any ambitious programme of development and a very large number can just manage to exist. This is so partly because some of their resources are not developed and others not properly administered; but the main reason which has almost a paralysing effect on their activities is that the yield, both actual and potential, of these sources of revenues is limited and even with the utmost care and economy, it is not possible to attain anything like a decent level of civic development. The resources of the local authorities are many, but their yield is exceedingly limited and not capable of any great expansion.

The fundamental cause of the limited yield of local

taxes is, of course, the abject poverty of our people. But that is true of all taxes and not of local taxes alone. The fact which makes the local taxes particularly inelastic is that, in spite of the variety of taxes which they can levy, the local authorities cannot expect to derive large income from them because the margin of taxable capacity of the people which the Central and Provincial Governments in India leave untapped is very narrow. Land tax is the mainstay of Provincial Finance; and even if the existing statutory limits on the levy of surtax or land cess by the rural boards be removed, the latter will not be able to pitch it at a high level on account of the heavy incidence of the provincial tax. But, as is well known, the resources of the Provinces themselves cannot be materially increased owing to their inherent inelasticity. The real elastic sources of revenues have been allocated to the Central Government, and the new financial settlement, though in some respects an improvement upon its predecessor, leaves most of the anomalies of the latter unaffected and creates new difficulties some of which will be dealt with later in discussing the ways and means of expanding local revenues.

This is another and a more extreme instance of fiscal centralisation referred to above. Fiscal centralisation, which is proceeding apace in other countries, is a legacy of the past in India and has to be reckoned with in the financial arrangements of the future. In India, as elsewhere, it will be necessary to have recourse to assignments and grants for enlarging the revenues of the local authorities. This is inevitable. In the last twenty years the provincial grants to the local authorities—specially in the case of the District Boards—have already assumed considerable dimensions and the tendency will be carried further in the years to come. The Provinces will probably depend upon assignments from central revenues to a considerable extent and will, in their turn, make similar contributions to the revenues of the local authorities.

This fact makes it necessary to devise the financial

arrangements of the future with very great care. In view of the fact that the local authorities will be able to spend with advantage almost unlimited amounts, it will have first to be ensured that they develop their own resources to the utmost limit of their capacity. At the outset the undoubted fact that the local authorities, even more so than in other countries, are very reluctant to tax themselves has to be faced. This reluctance has to be overcome by every possible means, and nothing must be done to increase the lack of self-reliance in any way. The administration of local taxes has not attained a high level of efficiency and there are sources which are almost undeveloped and are capable of yielding fairly large receipts. Financial administration is a sore point of local self-government everywhere, and in India even more than elsewhere the tendency towards administrative laxity is a besetting sin of the local authorities. On account of extreme centralisation of the past, the Provincial Governments still exercise a fairly wide control over the local bodies in matters of budget, accounts, audit, and borrowing. This control may have to be somewhat modified but cannot be relaxed. The experience of other countries reinforces the argument in favour of administrative supervision by the central authorities in the region of local finance. When the resources are strictly limited and the needs know no bounds, it becomes a matter of the utmost importance to exploit fully the resources, such as they are, and avoid all waste due to laxity, lack of prudence or administrative inefficiency. There can be no question that in India we have to make the most of what we have, and that is perhaps more important in local finance than other spheres of national life owing to the glaring disparity between the resources and needs of the local authorities.

The utmost husbanding of their resources by the local authorities will not, however, give them adequate funds. The grants will, of course, have to be more widely used to stimulate local enterprise and supplement local revenues. But even then it seems certain that the available

funds will fall short of even our minimum requirements. The most important problem of local finance, i.e., the problem of finding the wherewithal for the vital services, for which the local authorities are and will be responsible, cannot, for some time, be satisfactorily solved. This is the prospect which we have to face and should do so squarely.

That is, however, no reason for being unduly pessimistic. It has to be remembered that the problem is not confined to India. It, like so many other problems, is met with in all countries; and the fact that it is so much more acute here is due to the immensity of our entire national problem. The problem is a part of the problem of national rehabilitation, and realisation of our limitations in the face of the stupendousness of our task has to be the beginning of our wisdom. This is just the reason why we should take stock of the existing situation and prepare ourselves for the future. The financial position of the local authorities has to be reviewed in order that we may be able to understand its essential features and use them constructively.

This is the point of view from which the present financial position of the local authorities will be examined in these lectures. There is a great deal of uniformity of principle and policy in the system of local self-government all over India. This is due to the control exercised by the Government of India over the Provinces until the introduction of Dyarchy. Since 1920 each Province has passed its own laws of local self-government, but they have not introduced any wide divergence of theory and practice. In local taxation there are some important differences among the Provinces; but they are confined to the urban local authorities; and even they do not effect the validity of dealing with the subject from an all-India standpoint.

There are, as a matter of fact, distinct advantages in surveying the entire field of local finance in India; and though it may not be possible to take notice of some minor

differences on that account, it is worth while to deal with the problem as a whole. In doing so we have to keep in view its historical background. The history of local self-government and, therefore, of local finance, in their present form dates back to 1882; and though the events preceding that year may have to be briefly noted, they are neither important nor significant. The course of development of local finance since 1882 is of considerable interest; but what really matters is its present position and future possibilities, and it is proposed, as stated above, to deal with the subject more from the prospective than from the retrospective standpoint.

LECTURE II

HISTORICAL BACKGROUND

The history of local self-government in India can be conveniently divided into three fairly well-marked periods. The first period can be taken to have ended in 1882—the year in which Lord Ripon issued his well-known Resolution. It is not easy to say when it began because the phase which came to an end in 1882 had hardly any distinctive feature of its own except that it was characterised by the absence of even the ideal of local self-government. There were a few local bodies, but they were not self-governing even in the restricted sense in which the word has to be used when we speak of the period preceding the Reforms of 1919. The system of fixed assignments for provincial services, which Lord Mayo's scheme of financial decentralisation introduced in 1871, threw upon the Provinces the responsibility for developing local taxes for local services. The measures taken during the years 1871-82 were designed to relieve the Provincial Governments of the necessity of finding funds for the elementary wants of the local bodies. The Government of India's Resolution of 1871, in which the new financial policy was enunciated, spoke of 'the greater and wider' object of developing Self-government with capital S; but whatever development did take place was merely incidental and the real object of the changes was the financial relief for the Government of India.

Lord Ripon's Resolution of 1882 is the beginning of the second period and a real landmark in the history of local self-government because it laid the foundation of the system as it exists to-day. It was nearly after forty years that the next step was taken and that was due to the advent of the new ideal of responsible self-government as the

goal of British Rule in India. During this period the progress was neither rapid nor all-sided. The rural authorities were hardly self-governing even at the inauguration of the Dyarchy. But it was a period during which the framework of the existing system was created and the people made familiar with the idea of self-government in local affairs. The progress was halting and unsatisfactory owing to the difficulties inherent in the conditions which the bureaucratic system partly created and partly subsisted on. The developments of this period whatever they are, are of interest and importance on account of the fact that the present position of the local authorities is their direct outcome.

The Reforms of 1919 mark the commencement of the third period of local self-government. They gave the Provinces the power to accelerate the pace of progress and created the necessity for making local self-government not the starting point but the basic fact of national freedom. The laws passed by the different Provinces with a view to re-model the system are, taken together, an important step in the advancement of the ideal of local self-government. That is so not because radical changes of policy and principle have been introduced by these measures. Most of the changes of the Reforms period were foreshadowed in the Government of India Resolutions of 1915 and 1918, and there are, as a matter of fact, some changes which are desirable and were held to be necessary by the Government of India which have not been given effect to as yet. It is more to the change in the spirit of the constitution than to the provision of the new laws that we must look for an understanding of the real position of the local authorities. They are not now experimental stations of self-government but its constituent parts. They can now breathe in a different atmosphere and derive their vitality from the new currents of national life. This change in their position has been brought about by the growing strength of the national movement and grant of a large measure of provincial autonomy. The fact that

the entire country is well on its way to complete freedom necessitates a change in our attitude towards the local authorities. They are no longer to be viewed as reservations for the exercise of the rights of third degree citizenship. They have to become organs of national will, and the question of their relation with the higher authorities will have to be examined from a different angle of vision on that account. The period, which began in 1921, will end when we as a nation become fully self-governing.

Local finance, being a counterpart of local administration and its mainspring, has, of course, been an expression of the purpose implicit in the different phases of local self-government in the three periods of its history. In the first period local resources, such as they were, were completely under official control and the very conception of self-government was lacking in the administration of these resources. In the second, local resources were developed and financial framework built up; but as the ascendancy of official element in the entire administration of the country had to be maintained, the circumscription of the financial, as of all other, powers of the local authorities was a political necessity. In the third, not only the control over the local authorities has been relaxed but there has begun a process by which the purpose of central regulation of the local authorities has undergone a radical change. This change is important even though in respect of resources, expenditure, and financial administration changes in the position of the local authorities are not of a far-reaching character. Their position, so far as the resources are concerned, is not very different from what it was sixty years ago. Their revenue has increased, though it has not kept pace with their growing expenditure; but, as will be seen a little later, the nature and relative importance of their sources of revenue have practically remained unchanged during this period. Their functions have also, with one important exception, remained the same all along, and, of course, determined the range

and objects of their expenditure. There has been, in some cases, a change of emphasis in the relative importance of the different functions. The comparative neglect of roads since 1920 is, for example, due to the reaction against the policy of giving them a position of undue importance in local budgets during the period of official control. But, generally speaking, the position in respect of local expenditure has not been materially changed. Even in respect of administration the local authorities are subject to the same kind, though not to the same degree, of control. But the fact that the local authorities occupy a different position in our political system makes it necessary to approach the problems of local finance, as of local self-government, from a different standpoint.

The contradictions of ends and purposes inherent in the old system can have no place in the new. They were compromises between political freedom and political subjection; and as one negates the other and the former must now be of supreme importance, the purpose of financial regulation must be changed even if its technique remains the same. Local authorities are, as stated above, now no longer training grounds for politically immature people; they have to be an integral part of the whole system of national self-government and instruments of a national policy conceived in the highest interests of the people. The system of local finance has also to become an integral part of the system of national finance, and the latter has to express a unity of purpose in theory and practice. Local finance has to transcend its former limitations which were imposed by a centralised bureaucratic system and accept those the necessity of which can be demonstrated in the interest of efficient integration. The process is a part of the new freedom which the country has to win for itself.

This point of view has a bearing on every aspect of local finance, but before we deal with it in all its implications, it is necessary to give an account of the present financial position of the local authorities from the historical standpoint.

In the review of the development of local government it is proposed to deal only with the financial developments of the successive periods. From the financial standpoint changes in the working of local bodies, were, as stated later, few and not very significant; but it is obviously desirable to exclude non-financial changes from the review owing to the limitations of space.

The local bodies in India are either urban or rural and their constitution, functions, resources, and distribution of expenditure are all different owing to the difference of conditions under which they have to operate. Among the urban local bodies again there are marked differences of functions and resources as they comprise the Presidency Corporations of Calcutta, Bombay, and Madras, the municipalities of cities and towns of widely varying sizes and small embryonic municipalities of localities which are no better than overgrown villages. The rural local bodies comprise District Boards, Sub-District Boards under different names and Village Authorities of different degrees of importance. Besides, the urban local bodies referred to above there are also *ad hoc* bodies like the Port and Improvement Trusts, which have been constituted for specific functions; but it is proposed to exclude these bodies from the review because really speaking, they are outside the framework of local government in the country.

In the first period which, as pointed out already, ended in 1882 and was characterised by absence of local self-government in the accepted sense of the word, the urban local bodies achieved a certain measure of differentiated existence, and had their own revenue and expenditure and their separate budgets. In the Presidency Towns there were in existence corporations which could trace their early beginnings to the middle of the 17th century and had a continuous history of their own since 1856; and after 1872 there was even introduced in their constitution the principle of election of Coun-

cillors or Commissioners. These corporations had large resources and were given a higher status than the local committees of other towns and cities, but the limitations under which they had to function during this period left them practically no scope for self-government and in matters relating to the levy of taxation, the allocation of funds, the framing of budgets, and the raising of loans—i.e., in financial sphere—they were subject to a large measure of official control and their local autonomy was more shadowy than real. These corporations have been and are the most advanced local self-governing bodies in India, but even they were during this period without any real authority in the domain of local administration, taxation, and expenditures.

In Appendix I and II figures of revenue and expenditure of Presidency Corporations for 1870-71 and 1881-82 are given. The Calcutta and Bombay Corporations were in a position to raise larger revenues and incur larger expenditures than the Madras Corporation, but all of them had deficit budgets and spent little on public health and nothing on education. They mainly depended upon the tax on the annual value of land, i.e., local rate, for their revenues. In certain respects there were significant differences in their sources of income. In Bombay, for example, Town Duty and Tobacco Duty were levied and yielded considerable revenue. These sources were a special feature of the finances of Bombay and similarly Personal Tax in Calcutta and Tolls in Madras were important in their budgets. The two important objects of expenditure in these cities were conservancy and roads and police was also a charge on their funds. Debt service had become for all of them an important liability and indicated the exercise of borrowing powers in an appreciable degree.

There was parallel development of local government in what were called Muffasil or district municipalities for which provision was made by a series of Acts passed by the Central and Provincial Legislatures in the first decade

after the introduction of Lord Mayo's financial reforms. Lord Mayo's Resolution, in which these changes were foreshadowed and outlined, was primarily intended to relieve the Central Government from the responsibility for providing funds for local purposes, but its operative provision made it necessary to develop municipal institutions in urban areas and the legislation referred to above was passed for that purpose. These Acts, besides providing for the introduction of elective element in the municipal institution and investing them with wider powers of decision and execution, enlarged their resources and spending powers. It is not necessary to analyse these changes[1] in detail at this point. But it is necessary to point out one important development which followed these changes and which had far-reaching results for the future. It has already been stated that one outstanding feature of the revenue of the Bombay Corporation was the importance which Town Duties acquired there as a source of revenue. The Town and Transit Duties had been very largely levied in all Provinces of India, but had been condemned as obnoxious from every standpoint by the Government of India and repealed in the second quarter of the 19th century. After 1850 for some obscure reasons they were revived in Sindh, the Punjab, North-West Provinces, United Provinces, Central Provinces, and Bombay while Bengal (including Assam, Behar, and Orissa) and Madras continued to rely upon Property Taxes as a mainstay of their municipal finance. The development divided India into two distinct, though not mutually exclusive, areas in respect of the source of municipal revenue. In the Western Provinces Property Tax was also levied but was a subsidiary source of revenue and was all over the country supplemented by personal taxes, taxes on animals and vehicles and water-tax. This fiscal division has continued for the last ninety years and now presents problems which require special treatment in each revenue area.

[1] Vide Appendices III (*a*) and III (*b*).

Conservancy and drainage were the most heavy charges on municipal revenues in the Muffasil municipalities. Roads and buildings came next in importance in municipal budgets and education and hospitals were also, though very inadequately, provided for. Police remained in all Provinces a very important charge on their municipal revenues, but there was practically no local control of police services. In financial matters the Provincial Governments exercised complete control over municipal affairs, and the Municipal Committees were in most cases presided over by official Chairmen and had official majorities, the control could, therefore, be effectively exercised from within as from without. The figures of revenue and expenditure of Municipalities in 1881-82 are given in Appendices III and IV.

In rural areas there was no local self-government until 1881-82 though there were in existence, some local committees for assisting the District Magistrates in assessing the local cesses which were imposed after the introduction of Lord Mayo's reforms to provide the additional revenue needed to balance the provincial budgets. These cesses were levied in all Provinces and collected as surcharge on provincial taxation. These local funds were mostly utilised for expenditure on roads and in a few cases on education and public health and were not incorporated in central budgets. These funds were administered by the executive authorities and assigned to the districts according to the amount collected therein. The collection of these cesses was easy and efficient as the collecting agency was completely under the control of the Provincial Governments and no independent expenditure was incurred for the purpose. Local fund receipts in 1881-82 are given in Appendix V. The figures of expenditure from local cesses are available only for some Provinces, but owing to the diversity of classification, they are not comparable with one another. Education and roads—more particularly the latter—were the principal objects of expenditure of these funds and their primacy as such remains unchal-

lenged even after a lapse of over 80 years.

The underlying principles of Lord Ripon's Resolution still govern the working of local self-governing institutions. The only point which calls for notice is that in spite of the condemnation of District Boards as the agency for the administration of local affairs in rural area, their position and importance in the institutional structure of local government in the country even now remains unimpaired. It has, as a matter of fact, been strengthened by the changes that have taken place in the last decade—a point about which more will be said in a later section. It is convenient to trace the development of local taxation and expenditure during this period by comparing the figures of local revenue and expenditure of 1881-82 with those of 1895-96, the year in which the Government of India reviewed the developments of municipal government since 1882 in a comprehensive Resolution, and again with those of 1909-10 and 1920-21[1] two other landmarks in the history of Local Finance. This comparison shows that there were just a few significant developments but the general course of local government remained practically unchanged. One noteworthy change was the transfer of police from Local to Provincial Governments in almost all the Provinces, the other the growing importance of grants in local finance, particularly in rural areas and third, serious attempt in the United Provinces to replace Octroi by alternative sources of revenue. Apart from these changes there was considerable growth of local revenue and expenditure, but the relative importance of the different heads of income and expenditure was not materially altered. In Presidency Towns local government attained a higher measure of independence and achievement and municipal politicians like Sir Feroz Shah Mehta, left their impress not only on local administration but also national life; and through the other local bodies also a growing national life expressed itself by

[1] Vide Appendices IV to XII.

fits and starts, but generally speaking the position remained unsatisfactory and financial limitations cramping in the extreme. During the period the urban and rural local bodies accumulated unduly large cash balances. Generally the proportion of balances to local revenues exceeded 25 p.c. and in a fairly large number of cases was much larger. This was due to reasonable caution in some cases, but can be taken as an index of bad budgeting and financial conservatism of local authorities in most cases[1].

We can now pass on to the developments of local finance after 1920-21, i.e., after the introduction of the constitutional changes, generally known as the Montague Chelmsford Reforms. In this period local self-government acquired a new interest and importance owing to the acceptance of responsible self-government as the goal of British rule in India. In the Joint Report and also in the Government of India Resolution of 1918 the necessity of vitalising and quickening the pace of progress of the local bodies as a means of providing a broad basis for the structure of national self-government was admitted and emphasised. Several Provincial Governments took steps to carry out the new policy by revising completely the constitution of the local bodies under them before the inauguration of the Reforms, for this legislation did not require Parliamentary sanction; and the rest introduced similar measures after the Reformed Constitution of 1919 had been brought into operation. But all these measures, whether introduced immediately before or soon after the Reforms, belong to the same period and had the same aim. As a result of these measures the three objects referred to in Lord Ripon's Resolution, viz.:—(1) elective majorities; (2) elected non-official chairmen; and (3) independence of local bodies of outside control have, with one or two exceptions, been realised in a very large measure in all Provinces. The majority of members, both of the Municipalities and the Rural Boards, are elected and chairmen

[1] Vide Appendix XIII.

of these bodies, with the exception of the District Boards in the Punjab, are also elected non-officials almost everywhere. The Government still exercises supervisory powers and can take effective remedial measures in cases of gross incompetence or grave default; but these powers of control are not excessive and though in a few cases restrictions can be reduced with advantage, on the whole it can be said that the powers reserved by the Provincial Governments to themselves are indespensable safeguards against misgovernment and maladministration in local sphere. Local bodies in India now are autonomous within wide limits and, if it is assumed that intentions of the controlling authority—i.e., the Provincial Government—are above suspicion, (an assumption which is not justified in all cases) the control exercised by it cannot prejudice the further development of local self-government on the right lines.

More important than the changes in the constitutional structure of local bodies is the change in the entire outlook of the people. Opinions may differ as to the extent or the magnitude of this change, but anyone who has had experience of the general political atmosphere of the country now and in the pre-Dyarchy years must admit that growth of national self-respect and self-reliance which has taken place during the interval warrants an optimistic view of the future. The most important result of de-officialisation of the local bodies by replacement of official Chairmen by elected non-officials is not, as suggested by the Simon Commission, administrative, though the altered relationship of local bodies with the Provincial Government is a fact of considerable importance. The real significance of the change lies not in the fact that the "varied complex", of which the functioning of the District Officer as Chairman of the District Boards formed a constituent part, has disappeared and, therefore, new administrative machinery has to be devised, but in the fact that his withdrawal from the field of local self-government marks an important onward step in the process which has

still to go on if the Indian political system is to become truly democratic, the process of changing the District Officer from a potentate in the district to a public servant with specific functions. In other words, improvement in the political status of the country rendered necessary by fundamental psychological changes and the prospect of further changes to come alter the whole perspective of the problems of local self-government and local finance and is of much greater importance than changes in the structure of the local bodies. The latter, though they are channels through which the new forces express themselves, do not account for their existence and cannot exhaust their meaning. In local finance, as in local self-government, these imponderables are of the utmost importance. It is not possible to give figures for them, but they are the facts which give meaning and interest to the averages and percentages of the student of finance and have to be taken into account in order to understand the inwardness of the tables of revenue and expenditure.

This fact has to be borne in mind in reviewing the financial developments of local bodies during the Dyarchy period, for in themselves the changes that have taken place in the field of local finance have hardly any qualitative significance. A few new taxes have been introduced, but their relative importance is small. The main sources of local revenue are the same and their relative positions in the fiscal systems of the local bodies have not been materially affected by the changes that have taken place. Grants-in-aid have become even more important than they were before Dyarchy, but there again the tendency that was at work in the former period has been carried somewhat further. The fact makes it necessary to examine the place of grants in the system of local finance very carefully and ensure that in their administration the ends of economy and local autonomy receive their due consideration. The increase of grants themselves, however, does not in itself introduce any new factor in the situation. The local authorities have continued to spend their revenues

on health, education, and communications, and their expenditure on these objects has, in most of the Provinces, considerably increased. Some significant changes have taken place in the distribution of expenditure for these purposes, and suggest the lines on which the redistribution of functions can perhaps be made to enable the local bodies to fit in a scheme of all-round national development. These changes cannot, however, be regarded as radical in any sense of the word and do not change the general trend of the forces at work. The relaxation of control over the local budgets by the Provincial Governments is a change which is of great importance from the political standpoint and points to the need of providing certain checks if inefficiency and waste are to be avoided. But more important than this fact and much more vital is that the structure of the whole national life has to be rebuilt and makes it imperative for us to deal with the problems of local finance from the standpoint of national reconstruction. The new outlook of the people referred to in the preceding paragraph is, on that account, the most cardinal fact of the situation and will, if properly utilised, not only improve the chances of local self-government becoming a success but also enable us to change our system of local finance to answer the needs of to-day.

Owing to the limitations of space, it is not possible to examine and analyse the financial development in this period in any great detail, but the general observations made above have to be briefly supplemented by a few concluding comments on the evolution of local finance during this period.

It is necessary to take note of tendencies, in some cases only incipient, which have been in operation during this period and whose importance is likely to grow in the years to come. The first point, which is borne in upon us, is, as pointed out already, that now local self-government has really come into being. We had framework of local self-government all over the country and beginnings of local self-government here and there; but on the

whole the opinion expressed by the Simon Commission, that local self-government in the real sense of the word was practically non-existent, was a correct statement of the pre-Reforms position. That position has been radically changed, and the change is, as it has been already sufficiently stressed, more due to a change in the whole political atmosphere of the country than to the constitutional changes which have been introduced by the new local self-government laws of the different Provinces. We have now to face problems which are real and which present issues not essentially different from those which have to be faced in other countries. Before the Reforms there was so much make-believe in the working of the system of local government that it was difficult to distinguish phrases from facts. Now the situation has changed and we are living in a different world altogether. In other words, we have now passed from an atmosphere of unreality into one of reality. Our political system, it is well known, is still full of contradictions and incongruities, and these cannot but affect the working of the system of local self-government. But now the whole perspective has been changed and the growing integrity of national life will reduce the power and scope of these contradictions, and make, among other things, local self-government a self-consistent institution which will fit into the whole scheme of national life.

In the domain of local finance the most important effect of the change has been the grant of financial autonomy to the local bodies. In some Provinces their budgets have to be sanctioned by the District Officers, the Commissioner or the Provincial Government and in matters of taxation also they have, in some cases, to submit to restrictions which can and have to be removed, but as stated in the introductory chapter, the relaxation of external control leave to our local bodies considerable latitude of action in matters of revenue and expenditure, and they are now in a position to frame and execute policies of their own. Use of the new power has, as a matter of fact,

brought out the necessity of providing safeguards against maladministration of finances. In the pre-Reforms period the need of giving precedence to political education of the people over considerations of efficiency was admitted, but only in theory and not in practice. Now that the national self-government is imminent, the importance of political education of the masses through a well-devised system of local self-government is all the greater. But we have to remember that the local self-governing bodies are not only schools of democracy, but organs of national life; and the task of national reconstruction has, in a very large measure, to be carried through and by them.

Efficiency may not be the paramount consideration in the working of the system of local self-government, but it is nevertheless a cardinal consideration. Owing to the glaring disparity between the urgent needs of our national life and our available resources we have to cultivate assiduously the art of making the little go a long way. It is possible that, owing to the prejudices inherited from the past, we may not realise the importance of efficiency in local self-government, particularly in local finance. Official reports of all Provinces are full of adverse comments on the financial administration of the local bodies, and the defects which they bring to light are the same all over the country. The increasing deterioration in the collection of taxes is the most outstanding among them. But there are others which are no less important. Inefficiency and discrimination in the assessment of taxes, the disregard of the principles of budget-making, misappropriation of the Government grants for specific purposes, not to speak of corruption and embezzlement, are defects which cannot be completely eradicated, as experience of other countries also shows, in any system of local self-government. They are, nevertheless, very grave defects, and their wide prevalence cannot but be a matter of serious concern in a country which has to solve the exceedingly complex problem of integrated national life over such a wide area and under such different conditions. The position for-

tunately is, as yet, well in hand. The Provincial Governments all over the country have reserved to themselves adequate powers to deal with cases of financial inefficiency and mismanagement; and as local self-government itself is such a young plant, and has not taken firm or deep roots, it is possible to remedy these evils, and prevent further deterioration. The system has to be so designed that, as far as possible, preventive measures may make the recourse to the punitive ones unnecessary or at least reduce it to a minimum.

In the field of taxation there have been no striking developments. There has been considerable growth of revenue but it has been mainly due to the increased yield from the existing taxes and not the levy of the new ones. There have been a few cases in which the additional powers of taxation have been exercised, but they are not important, and on the whole the extreme reluctance of the local bodies to tax themselves is more than evident and has to be overcome. The Local Self-government Acts empower the local bodies to levy, besides the specified taxes, any other tax with the sanction of the Central and Provincial Governments. This lack of new enterprise in taxation is mainly due to the extreme difficulty of devising suitable new taxes, but there is no evidence whatsoever of the growth of spirit of adventure in this field; and this is the result, not of caution born of knowledge and experience, but of inability to face the new situation in the light of the new facts. A change in the system of local taxation, in order that it may acquire the elasticity which it now does not possess, will, it is clear, require a wide horizon and concerted effort on a national scale.

Though no new taxes have been imposed and the powers of taxation have not been fully used, certain developments have taken place which have to be mentioned here. It is now clear that in the Provinces in which Octroi was the most important source of municipal taxation it is more than holding its own. The replacement

of Octroi by the Terminal Tax, has gone on, but it is only a change of administrative methods and has only an indirect bearing on the incidence or effects of taxation. In 1915 the Government of India, in giving their sanction to the introduction of the change, impressed upon the Provincial Government the need of treating the step as a transitional measure from the indirect to the direct municipal taxation. The United Provinces was the one province in which for a while the replacement of Octroi by the Terminal Tax in the large towns and by the Tax on Persons on the small ones proceeded at the same time. In the other Provinces there was no attempt to regard direct taxation as a desirable goal and substitution of the Terminal Tax for Octroi was proceeded with as a change which was taken as an end in itself. Even the United Provinces had by the end of 1920, relaxed its efforts to make direct taxation a more important factor in its municipal finance, and it even had come to the conclusion that the Terminal Tax could not be substituted for Octroi in all municipal towns. Since 1921 the replacement of the Terminal Tax for Octroi has been proceeded with in a number of Provinces but the conviction that both of them have come to stay is stronger than ever, and the direct taxes seem to have no chance of gaining ascendancy over the indirect ones. But what is even more significant is that Octroi and the Terminal Tax have not only regained their position but are now being levied over a wider area. The levy of the Terminal Tax in the small Towns of the Punjab and by the District Boards in the Central Provinces involves an extension of the sphere of indirect taxation which can have important consequences if the movement makes further headway. The Bombay Panchayat Act of 1920 permits even the villages to levy Octroi, though this power has not been actually exercised. All this involves a change of policy and practice which make it necessary for us to consider the whole position very seriously from the standpoint of the future developments.

The House-Tax, which may be taken to include the

Service Taxes, because the latter are assessed on the same basis, has held its position in the municipal finance of the Provinces in which it was of very great importance. The Land Cess continues to be the mainstay of local finance of the rural local bodies, and there has been no change in the method of its assessment and administration though the rates have been enhanced in a few cases. But the House Tax has been introduced by the newly constituted Village Panchayats of Madras, Bombay, and the Punjab and what is even more significant is that the Madras Panchayats have been permitted to levy it on the capital value of houses instead of their rental value, a point which may seem to be of very minor importance but suggests an alternative method of assessment which is being used in several important countries and has advantages of its own which will be fully discussed in a later chapter.

The change in direct taxation to which it seems to be necessary to call special attention is the increasing importance of what cannot but be regarded as the local income taxes in the local finance of most of the Provinces. The Profession Taxes and the Tax on Persons have been levied by the local bodies in India ever since the introduction of local self-government in India. The Profession Tax is considered a Licence Duty, and the Tax on Persons assessed according to circumstances and property has, on account of its dual character, been sometimes called a personal tax and sometimes a tax on circumstances and property. But both of them are local income taxes for all practical purposes, though their methods of assessment are so rough and ready and their yield so limited that it does not seem to be quite appropriate to dignify them by a name which recalls associations of quite a different order. To these have to be added the Haisyat Tax of the Punjab and the C. P. which is even more like the income-tax than the other two taxes. The Punjab Government expects the District Boards to develop the Haisyat Tax. The Village Authorities of the Central

Provinces, Bihar and Orissa, Bengal and Assam are also expected to levy the Tax on Persons and are actually using this power. For the time being the harmful results of this form of taxation have been repressed by prompt action on the part of the Government of India, but the existence of these taxes is a special feature of our local finance and calls for special consideration.

The grants-in-aid have been growing in importance, and the rural areas very largely depend upon them for their income. But the fact which has to be stressed is that the increase in the amount and importance of the grants has been accompanied by a relaxation of central control and not its increase. In other words, the primary purpose of increasing them has been the need of supplementing local revenues and not of securing co-ordination and the national minimum of efficiency, though the latter objects have also been kept in view. This is, of course, due to the fact that the development of local representative institutions not only necessitated their emancipation from outside control, but also expansion of their resources, which could only be brought about by the grant of subsidies by the Provincial Governments on a more liberal scale.

In the domain of local expenditure the importance attached to the development of education and public health services, and the comparative neglect of communications show the stress of public opinion in the working of the new regime. In spite of the fact that the local bodies have not been ready to tax themselves for the fuller development of education and public health, there has been genuine enthusiasm for making better provision for these vital services. This has been accompanied by a shift towards a further division of functions between the Provincial Government and the local authorities which has a significance of its own.

The local bodies have been relieved of their financial obligations by (a) transfer of functions like the construction of main roads, secondary education, and hos-

pitals ,to the Provincial Governments; (b) provincialisation of certain services and appointment of officers like Health Officers and Engineers by the Provincial Government who, though paid from the Provincial Revenues, administer local functions and discharge their duties under the Local Authorities. The list of obligatory and optional function in the Local Self-Government Acts of the various Provinces is still very long. But in view of the fact that they have no resources to make adequate provision even for the most elementary duties, it is evident that this distinction and the long list of functions have hardly any importance. The tendency towards the provincialisation of secondary schools, hospitals and dispensaries, and the main roads is indirect recognition of the necessity of getting the local authorities to concentrate their energy and attention on a few services; and even with regard to them it is clear that they will need not only financial assistance but also guidance from the central authorities. It is now more obvious than ever that the local authorities can only discharge a few functions; and these must be such as have precedence over others owing to the imperative need of concentrating on the most urgent tasks of the nation.

In respect of the village self-government the position now is hardly any better than it was in 1920-21. The fact that under the new Acts a few thousand Village Authorities have been brought into being only shows how slow the progress has been in spite of the admitted need of making self-government in the villages the foundation of the whole system of self-government in the country. The system of rural self-government is still devoid of vitality owing to the District Boards being practically the only important self-governing institutions in the rural areas; and as the experience of recent years has still further demonstrated their futility as units of self-government, our only hope is the vitalisation of institutions the need for which has been recognised all these years, but which have not been able or

allowed to function. Local Boards (Subdivisional Boards) are still of very secondary importance in the Province in which they exist, and the present position of Village Authorities brings home to us not only their own comparative insignificance but also the magnitude of the task of creating a system of village self-government. They have not received any grants worth speaking of, the House Tax and the Tax on Persons on which they are expected to rely have either not been levied at all or when levied have yielded very poor return, and the District Boards generally have not adopted a sympathetic or helpful attitude towards them. In Madras, the Central Provinces, and some other Provinces there has been a dim recognition of the fact that in the villages though cash may be scarce, labour is not, and it is possible to make use of co-operative effort for rural reconstruction. But the recognition of this fact has not led to effective action, on anything like adequate scale and stagnation in the villages continues to be the most marked feature of their corporate existence. This state of things cannot be allowed to endure if the nation is to make any progress. The villages have not only a corporate existence but corporate life which has to be mobilised for their own sake and for that of the country. That, however, cannot be done without national effort and hard thinking not in terms of the canons of taxation but the primary facts of everyday life. The most important problem of local finance in India is the problem of starting the villages on the path of self-government; and this is a problem which has not even been tackled, much less solved.

This concludes the review of the present position of local finance in India as it has developed during the British period of Indian history. Now we have to address ourselves to the tasks of the future. After the war freedom of India has to be won and preserved. The local authorities, as such, cannot win this freedom for us; but in its preservation they have to play a decisive part and they can do so only by serving as instruments

of national reconstruction on the widest possible scale. The experience of the last two decades does not inspire confidence in their ability to rise to the need of the occasion. But it would be wrong to take an unduly pessimistic view of the position and suggest measures which may involve centralisation of powers, functions, and resources. India will need a strong government at the centre for the preservation of her integrity and the development of her moral and material resources. But the Central Government has not only to be federal in the real sense of the word, but function as an organ not of unified but integrated life of the nation. That is, we will have to make provision not only for the largest measure of freedom for the constituent units of the Federation, but also for their full collaboration in the arduous task of the remaking of the nation ; and this collaboration will be unattainable in a country of India's size and diversity without full mobilisation of local knowledge, experience, initiative, talent, and resources through the truly democratic process of awakening local consciousness animated by a national social purpose.

India's unity will have to be evolved from below and cannot be imposed from above if it is to be enduring and enriching factor of our national life. That means that a healthy, vigorous, and well-organised local self-government must be made an integral part of our prospective freedom. Local autonomy in the new context can and should not mean local anarchy. Most of our local bodies are not only suffering from what Finer would call hypertrophy of local patriotism, but also from excess of local factions and personal manoeuvres. This is not surprising because local government everywhere grows fissiparous in proportion to the circumscription of powers and the pre-eminence of local issues. But narrowing process has to be deliberately counteracted by appropriate measures of organisation and pooling of knowledge and experience for and through the performance of national function.

Local bodies, in other words, have to be made country-minded, alive to the supreme task of raising the nation as a whole to the unprecedented and at present seemingly impossible level of endeavour and achievement. It has to be brought home to them that the country is an abstraction without local units and local units in isolation can do nothing or even less than nothing by coming in the way of all-round progress without any benefit to themselves. From village upwards all local centres of our national life have to work consciously for an all-embracing national purpose, for making India a country worthy for men to live in. At present, everyone knows, it is only a nightmare, incredibly poor, ignorant, and diseased. India cannot be a country of autonomous republics; she must be a commonwealth in which every locality, howsoever small or big, gets its due and pulls its weight. This leads to a duality which does, however, not involve conflict of ends and means. Every centre of our national life has to be both local and national—local because a nation can only express itself in and through local centres and in the present state of affairs localities by themselves have no content or meaning. As pointed out in the introductory lecture, this reconciliation of the opposites, this mobile and dynamic equilibrium has to be worked into local finance or rather it is in local finance that this balance has to be first fully attained if it is to be really effective in local self-government. Attainment and maintenance of this equilibrium is necessary in the whole life of the community and not only in local self-government. It has to be the all-pervasive spirit of common life in India and everywhere. We are, however, concerned just now with one aspect of Indian polity and in the subsequent lectures the specific problems of local finance will be examined and dealt with as parts of the national problem as a whole.

LECTURE III

LOCAL REVENUES—INDIRECT TAXATION

The utter inadequacy of local revenue is such a well-known and widely accepted fact that it is hardly necessary to emphasise it; but in view of its far-reaching effects on every aspect of local finance, the table[1] showing the incidence of taxation and income of the municipalities from 1881-82 to 1939-40 and of the District Boards from 1895-96 to 1939-40 will serve a useful purpose. During these sixty years the revenue of the local bodies has increased considerably, but the population has also increased with it and the increase per head, therefore, has been partially neutralised by the increase of numbers. But even then the increase in almost all cases is over 100 p.c. and in some cases over 300 or 200 p.c. This increase is a matter for some satisfaction, but does not relieve the extreme financial stringency of the local authorities. They are still, despite this increase, almost as far from the solution of their financial problem as they were sixty years ago. At present the highest provincial incidence of tax revenue per head in Municipalities is only Rs. 6-12-3 and the average is near Rs. 4, and for the District Boards the highest provincial average is Re. 1-4-9 per head and the general average less than as.-8-. Since 1929-30 there has been hardly any increase in the average incidence of revenue in local areas and in some cases there has been appreciable decrease. The average incidence of revenue in Bengal is Re. 0-4-9 per head, in Orissa as. 5-3 in the U.P. as. 6-11, and in Assam as. 7. These four Provinces taken together account for nearly 120 millions of popu-

[1] Vide Table XVII.

lation or more than two-fifths of the entire population of British India; and the rural local authorities in these areas are expected to provide for education, health, and communications for the people in their territorial jurisdiction with an average annual income of annas 7- or less per head per annum. This is all that they get from all sources including government grants. That they do so little for the people is, therefore, matter for no surprise and so long as their income remains what it is, they cannot do more in spite of all possible constitutional or administrative changes. There are local authorities which are much better off. In Bombay City the average incidence of taxation in 1939-40 was Rs. 24-11-7 per head, in Calcutta Rs. 17-0-4 per head, and in Madras Rs. 8-9-0 per head. Most of the hill station municipalities also have large income per head and some other towns also are owing to their special circumstances, in a more favourable financial position. But these are exceptions and have to meet onerous obligation from, what is for them, their limited income. But generally speaking our local authorities are in dire financial straits and their penury is writ large on every detail of their administration. Poverty of local, as of all public, revenues in India is, of course, the direct result of the poverty of our people and one of its most important indices. It is all the same the outstanding fact of our local finance and is of overwhelming importance. The averages always cover a multitude of facts of varying meaning and importance, but the averages referred to here are, in spite of their inherent limitations, very significant and indicate vividly the extreme insufficiency of local resources for the many pressing obligations of the Local Authorities. Poverty of resources of local authorities in India is well known and needs hardly any emphasis in the discussion of the problems of local finance. This makes a detailed analysis and examination of the revenue position of local bodies all the more necessary. The problem which we have to take first in hand is the problem of the place of indirect taxation in local finance

and that for two reasons. First, because it is generally taken for granted that indirect taxation is not a suitable source of revenue for the local bodies; and though there are a few other countries in which the local bodies derive a part of their income from the indirect taxes, they are treated as a survival from the past and are fast losing their importance. Secondly, because the octroi and terminal taxation—the two most important forms of indirect taxation in India—has received greater attention at the hands of the Government of India and the Provincial Governments concerned than any other problem of local revenue, and its position cannot even now, as will be seen a little later, but be a cause of serious concern. Our discussion of the other sources of local revenue will depend so much upon what is to happen to the octroi and terminal taxation, that it is well to come to a definite conclusion with regard to its future before we turn to the discussion of problems of direct taxation.

Indirect taxation is, as stated already, of special importance in Bombay (including Sindh), the Punjab (including N.W.P.), the U.P. and C.P. Though owing to the development of service rates the proportion of receipts from octroi and terminal taxation to the total tax revenue in these Provinces has decreased since 1920-21, even now these taxes are the most important forms of taxation in this area and are more than holding their own.[1]

[1] *Receipts from Octroi and Terminal Taxation in 1939-40*

Province	*Receipts from Octroi & Terminal Taxation* In Lacs of Rs.	*Total Tax Revenue* In Lacs of Rs.	%
Bombay	52.04	154.64	34
Sindh	14.35	20.66	69
Punjab	81.92	132.20	62
N. W. P. ..	10.12	10.60	95
U. P.	76.83	124.00	62
C. P.	23.77	48.83	49

(*Footnote continued*)

But what is of greater importance than the large income derived from this source is the change of opinion regarding its future. In 1915 in theory, if not in practice, it was held that substitution of the Terminal Tax for Octroi was to be taken as a step towards making the direct taxes the backbone of local finance. It was clear by the end of 1920 that the introduction of the Terminal Tax in place of Octroi would not in any way impair the position of the indirect taxes in local taxation. But now we have gone even further and it is fairly obvious that left to themselves the Provinces would rely more and more upon the indirect taxes for local purposes, and as is shown by the provision in the new Acts for the levy of Octroi by the Village Authorities in Bombay and imposition by the Terminal Tax by the Small Towns in the Punjab and the District Boards in the C.P., there is a possibility of the semi-urban and rural authorities yielding to the temptation of supplementing their resources by levying a tax which has the merit of being acceptable to local bodies and of bringing in money to the local treasury by shifting partly the burden of the tax to the whole community. The position is really disquieting and it is not in the interest of the country to let the matters take their own course in this respect. Indirect local taxation—particularly octroi—has been severely criticised now for over eighty years in India, and the Government of India has made several unsuccessful attempts to make these duties as

In Bombay the proportion is comparatively low, but if we take Bombay and Sindh together, the relative importance of indirect taxation in the system of local taxation increases and becomes nearly 36 p.c. In 1920-21 when Sindh was part of Bombay the corresponding percentage was 50 p.c., and in 1929-30, 40 p.c. But the relative decrease is due to the growing importance of the sources of local revenue like water-rate whose increased contribution is counterbalanced by the increase of expenditure on water-works. Taken as a whole in Bombay as in the other Provinces octroi and terminal tax still remain by far the most important source of tax revenue for the urban local bodies.

harmless as possible.[1] Various devices have been adopted to localise their incidence and rid them of their administrative defects. Since 1916 replacement of octroi by terminal taxes has taken place to a considerable extent and the change has been brought about in the hope that some of the worst administrative abuses would thereby be remedied. But in all the Provinces referred to above both octroi and terminal taxes are being levied, and the tendency towards substitution of the latter for the former has been checked in certain Provinces and even reversed in others. But these taxes are essentially alike in spite of differences in their methods of assessment and collection. It is necessary to examine the position a little more carefully in order to understand its

[1] "The history of these taxes is one of many expressions of pious opinion, accompanied by little in the way of practical action. They are the direct successors of transit duties, the continuance of which was one of the scandals of earlier British rule in India and the abolition of which by Lord Ellenborough freed the trade of the country from an intolerable burden. As early as 1864 Sir Charles Trevelyan pointed out the danger that existed of the old transit duties being replaced by a similar evil in the shape of town duties and resolutions purporting to limit the operation of the latter were issued by the Government of India in 1864, 1868, 1877, 1899, and 1903."

The Taxation Enquiry Committee Report, Vol. I, para. 399.

The Government of India sought to limit the operation of these duties by restricting the tax to a few articles of local consumption and insisting on moderate taxation of the necessaries of life, by providing for refund of octroi on dutiable articles which were exported and by requiring municipalities to provide warehouses or other conveniences for the storage of goods in transit and by laying down the rule that the articles liable to custom duties and property of the Government be exempted from taxation. Further, in 1877 they prescribed a standard of yearly consumption of dutiable goods per head of municipal population by reference to which the excess of the amount paid as octroi over the amount properly payable could be calculated, the excess being taken as the measure of the extent to which octroi had become a transit duty. All these devices were tried but little has been achieved in the way of 'practical action' and the statements of the policy have in effect amounted to "expressions of pious opinions."

different aspects.

Octroi, the older of the two taxes, was revived about 1860 on the grounds that it had the sanction of ancient usage and was suited to the genius of the people. That octroi is preferred to direct taxation admits of no doubt. But it does not follow that in the Provinces in which it is being levied, direct taxation cannot be imposed or developed. As a matter of fact, it is being levied widely in these Provinces, but its yield relatively speaking, is small and has not expanded owing to low rates and inefficient assessment and collection. Indirect taxation is more popular than direct taxation everywhere; and the more well-to-do sections of the community, who are more vocal in local, as in general, politics, and, of course, over-represented in local bodies, naturally have a definite preference for the tax whose burden mainly rests upon the poorer and larger section of the community. This, however, does not mean that local psychology and direct taxation are incompatible. There is no difference between the attitude and reactions of the people of the different Provinces in this respect. Given a choice they would, of course, prefer indirect to direct local taxation, but there is no inborn or implacable hostility to direct taxation as such; and in the Provinces in which octroi is important, the fact is due to historical accident and not to any stubborn attachment of the masses to indirect taxation.

The case against Octroi, which has been set forth so often in official declaration and memoranda, rests mainly on three grounds.

The first is that Octroi creates hindrances in the way of free flow of trade and commerce and enables the local bodies to impede the economic development of the country by following a policy dictated exclusively or mainly by local interest and local considerations. The provisions for refunds and bonded warehouses owe their importance to the recognised necessity for mitigating this evil. The second is that the cost of collection is heavy and, therefore, the tax involves a burden which, apart

from its inherent disadvantages, is a very strong argument against its imposition. And the third and the most important is that the system of assessment and administration lends itself to practices which are vexatious, corrupt, and demoralising, and make the system obnoxious more because of the conditions under which it has to be administered than because of its other features.

The last may be dealt with first owing to its great importance. The fact that assessment and administration of Octroi gives rise to serious inconveniences and peculation is due to two reasons. First, the assessment and collection of the tax necessitate the setting up of a machinery and the enforcement of rules which cause considerable expense and inconceivable amount of inconvenience to the taxpayers. And second, these administrative provisions have to be carried out by a staff which must be numerous and, therefore, ill-paid and of very inferior quality otherwise the cost of collection, heavy as it even now is, would make the net receipts from the tax so low that it would be hardly worth while to levy it. The assessment and administration of Octroi presents all the problems of tariff-making. The schedule of rates are framed under the eight broad categories prescribed in the orders issued in 1868 and 1871. The drawing up of these schedules is a task which, it is needless to say, requires an intimate knowledge of the conditions under which the trade is carried on and also of what the economists call the elasticity of demand—i.e., of the reaction of the consumers to the changes in the prices of goods and their effect on the productivity of the tax. "Municipal Boards as constituted in most of the municipalities," wrote the U.P. Municipal Taxation Committee, "are not suitable authorities to prepare or revise tariff schedules. The problem of preparation of such a schedule is the problem for an economist possessing a thorough knowledge of local commercial conditions.[1]" Knowledge of non-local condi-

[1] *The U. P. Municipal Taxation Committee Report*, 1909, para. 17.

tions of trade is probably as necessary as the knowledge of local conditions, but as it is too much to expect the members of the municipalities to possess this knowledge or set up local Tariff-Boards for octroi-rate making, the work has to be done by them with such knowledge and ability as they have at their disposal. That the methods, which they use, in preparing the schedules are of a rough and ready sort need not, therefore, cause any surprise. "Proposals for fixing the rates of both taxes (the octroi and terminal taxes)", to quote from the evidence of Mr. G. B. F. Muir, Secretary, Municipal and Local Self-Government Department, U.P. before the Taxation Enquiry Committee, "and for the inclusion or exclusion of various classes of goods emanate from the Boards concerned. If the tax is imposed for the first time someone prepares a list of articles the taxation of which seems worth while. Commonly the schedule of another town is adopted. The selection ultimately made is probably not unsuitable, but this as the rates proposed are mainly a matter of guess work."[1] The selection of articles for inclusion and the determination of rates may not be unsuitable in these circumstances, but schedules of rates are and must remain "a matter of guess work" and have no rational justification.

The U.P. Municipal Taxation Committee stressed in its Report the necessity for Government control over the schedules because it was of opinion that Government would bring more enlightened judgment to bear on the scrutiny of the schedules, judgment based on experience gathered from numerous cases of the same kind. The officers at the provincial headquarters can be assumed to have wider outlook and make use of their powers of scrutiny to prevent some flagrant abuses; but owing to their ignorance of the local conditions and lack of understanding of the issues involved, they do and cannot make up from their own experience for the deficiency in the schedules due to their being "mainly a matter of guesswork".

[1] *The Taxation Enquiry Committee Report, Vol.* IV, p. 460.

Mr. Muir admitted in his evidence the ineffectiveness of the control exercised by the Provincial Government. Government control, according to him, comprises comparison of the schedule with those in other towns and acceptance of rates approximating to rates in force elsewhere. "No other method of examination", he said, "is possible; and even if it were, there would be not time for it."[1] He was, of course, speaking of the U.P., but the conclusion, that conditions are the same in the other provinces, is a perfectly warranted assumption; and as everywhere the secretarial mill grinds slowly and with much ado about nothing in regard to matters which are beyond the ken of those who run it, it can safely be taken for granted that the schedules remain as much a matter of guesswork after they have been duly approved by the Provincial Government as they are when they emanate from the humbler sources of municipal authority. Tariff making is, even under the most favourable circumstances, a very difficult job, but the circumstances in which the local tariffs of the Municipalities in India are framed are as unfavourable as they can conceivably be, and that the job is not at all well done is a matter for great regret but not for any surprise.

The unscientific character of the schedules is not, however, the worst of our troubles. It is when the goods are assessed to duty according to these schedules and the prescribed procedure for assessment has to be gone through that the more obvious and also the grosser evils of Octroi come into full view. For assessment and collection of the tax every municipality has to establish outposts on all roads leading into the town near the limits of the area in its jurisdiction and one near the Railway Station, if the town is on a railway line. There has to be a central station at which there is the head office of the octroi establishment and at which the more important cases are dealt with. The outposts are in charge of a functionary

[1] *The Taxation Enquiry Committee Report*, Vol. IV, p. 460.

who is the appraiser, assessor, and collector of the town customs all in one and is assisted in his work by a peon who has to see that no consignment goes past the barrier without the cognisance of his official superior. The officer in charge of the outpost is known by various designations, but the one most commonly used is *Muharrir* which literally means a clerk. The central office is administered by the Octroi Superintendent who, besides dealing with the cases, which must, under the rules, be disposed of by him, is responsible for the efficiency and adequacy of the whole system and, therefore, exercises general surveillance over it. He has under him the Inspectors, who occupy an intermediate position between him and the *Muharrirs*, and whose function it is to exercise supervision over the outposts and inspect consignments that have passed the barriers to make sure that no one evades the payment of a part or the whole of the duty owing to fraud, collusion or smuggling.

The power which all octroi officers have to be given and which, besides serving the legitimate purpose of preventing fraud and evasion in all forms, can be and is used for exacting illegal payments is the power of search and inspection of goods. The goods liable to duty are either assessed by the *Muharrir* at one of the outposts or by the Superintendent at the head octroi office. A limit is fixed up to which a *Muharrir* can collect the tax at the outpost, and above which the consignment has to be taken to the central barrier for assessment and payment of the duty. In both cases the goods are liable to inspection if the declaration of the consignment is not accepted as correct by the assessing officers, and it is the threat of search more than the search itself which is used for making unlawful demands. Every town has, as a matter of fact, its local custom as to what is due from or to the parties concerned, and if the custom is respected in observance, the payment of the amounts in question is not made an occasion for any resentment or fuss. The commodities imported by railway have first to be assessed on the basis

of the railway receipt and the invoice or declaration of the importer and the amount of the duty paid before they are cleared, but they cannot be taken into the town without satisfying the outpost *Muharrir* that the goods agree with the details entered in the pass which the importer gets on the basis of his declaration or invoice; and as for his satisfaction he is empowered to order that the parcels be opened for his inspection on the road or the wayside, he is in a position to make his gratification a condition precedent to his satisfaction. The troubles of the importer, however, are not over when he is through with the Octroi Superintendent or the *Muharrir* or both. He has still to reckon with the Inspector who, on meeting, an importer with his goods covered by an octroi receipt, is authorised to demand his octroi receipt and verify the entries therein by inspection of the goods. He can demand the amount due if he thinks that there has been under-assessment or evasion; and if he has reason to believe that it was through fraud that the full amount of the duty was not assessed or paid, he can make a lot of trouble for the importer. As of the reasonableness of his belief in this matter as he is the sole judge, he finds the readiness of the importer to strike a reasonable bargain with him of very great help in coming to a reasoned conclusion as regards the correctness of the original assessment.

In the case of the goods intended for immediate export the importer is given *Rawana* or transit pass which has to be shown to the *Muharrir* of the barrier of export, and the latter has to verify all the items in the pass and see whether they correspond with the goods presented for export. This duty of verifying that all the goods entered in the pass are actually exported is a necessary check, but also a profitable opportunity which is very rarely permitted to go by. For the goods which are exported, not immediately, but after the lapse of some time, the exporter can claim refund on submitting an application giving details of the outgoing consignment which

have, in the first instance, to be vetified by an officer at the head-office and then again by the outpost *Muharrir* who has to certify that the goods on which the refund is claimed, have been actually exported. As the payment of the refund depends upon the certificate of the export outpost *Muharrir*, the latter practically is in a position to sanction the payment of the amount in question. The unpacking of goods at the central head-office or the export outpost for the purpose of verification must involve, it can be easily imagined, an amount of trouble for averting which it cannot but be worth while to pay reasonable gratifications. It need not be added that the officers who have, by this procedure for refund, this temptation put in their way do not find it easy to resist it and can absolve themselves of all blame in the matter if they can satisfy themselves that their exactions are *Mamúli* or have the sanction of the local custom.

The combination of a due regard for the interest of the municipal revenue and for the convenience of the mercantile community would be difficult under the system of octroi in any circumstances; but in India the fact that the *Muharrir*, the Inspectors, and the Superintendents are all, for the kind of work that they have to do, extremely under-paid and, therefore, ill-equipped for the proper discharge of their duties greatly increase the difficulties inherent in the system. The high standard of efficiency and probity, without which Octroi must either be unproductive or oppressive, is rendered unattainable owing to the low scale of salaries which are paid to these officers. Their duties are onerous and have to be carried out under conditions which are distasteful to a degree. Their salaries are mere pittances and cannot be raised because the cost involved would be an unbearable strain on the municipal resources and make Octroi a poor source of revenue on account of its very low net receipts. There are no prospects of any kind in this work except, of course, the prospect of making a small pile through the means referred to above. That the system of octroi taxation

keeps out of the pockets of the people much more than it takes out is, therefore, only to be expected. This is so now, this has been so since 1810, and this will be so in the future because as the U.P. Municipal Taxation Committee put it, "it is the quality of the staff which is at the root of most of the evils of the system" and this quality cannot be improved[1].

To these disadvantages of Octroi have to be added the high cost of collection even in spite of existing low scales of salaries. Sir Charles Trevelyan estimated that the cost of collection of the Town Duties in 1835 was 12 or 13 p.c. of their receipts. In 1907-08, the cost of collection of Octroi in the U.P. according to the Municipal Taxation Committee was 14.2. p.c. In the official reports the cost of collection of Octroi is not separately given, in all cases, but the cost of collection is known to be still very high and not appreciably less than the proportion given above.

The injurious effect of the unscientific octroi rates and the cumbrous system of checks and counter-checks administered by very inferior staff on the trade and commerce of the country are also a matter of common knowledge, but it is not possible to give any figures to show how serious they are and to what extent they retard the economic development of the country. The Punjab Government, in their memorandum to the Simon Commission, question the validity of the assumption on which the Government of India regulated or at least tried to

[1] *The U. P. Municipal Taxation Committee Report*, 1909, p. 25.

The Municipal Taxation Committee in the same paragraph, state the impossibility of improving the system in the following words:—

"The problem seems, and is, insoluble. Octroi cannot be worked without a reliable staff. Such a staff would cost more than the municipalities can afford to pay. The fact that under existing conditions the system has to be worked by inferior men and that no improvement is possible, is one of the points which condemns the system."

regulate since 1864 the imposition of Octroi by the Municipalities. "The Punjab Government must", to quote from the Memorandum, "however, observe that nowhere in the whole correspondence extending over sixty years has any proof been given that these forms of taxation (the octroi and terminal taxation) constitute a burden on trade."

The Punjab Government are in this statement putting forward a point of view which is obviously at variance with the well-known facts. It is not possible to cite any statistics to prove the harm done by octroi to the trade of the country, as it is not possible to prove statistically the injurious effect of high tariffs on world trade; but octroi, or local custom-duties, are hampering trade and disturbing it seriously is beyond question. They are impediments to trade and their administration makes them both onerous and odious.

The provision for refunds and bonded warehouses, the two remedies which have been suggested all along to mitigate the evil effects of Octroi, are palliatives but have only a limited utility. The bonded warehouses can be used for goods which are temporarily detained in a town, but on account of the fact, that most of the through trade now goes by railway, decreases their importance in the internal trade of the country. The system of refunds, apart from its other disadvantages, involves the cost of collection and the cost of refunding and is, therefore, not only inconvenient but also wasteful. The Government of India have emphasised the importance of abolishing the duties on goods, a large proportion of the receipts from which have later to be refunded, but a number of important Municipalities continue to levy duties which involve large refunds. In Bombay, for example, out of the gross receipts from the Town Duties of Rs. 28.98 lacs in 1928-29, Rs. 15.34 lacs had to be refunded and of these amounts receipts from sugar were Rs. 14.04 lacs and refunds Rs. 10.57 lacs. In other words more than half of the total gross receipts and three-

fourths of the receipts from the duty on sugar had to be refunded.

The position was about the same ten years later; in 1939-40 the total receipts from Town Duties were Rs. 27.78 lacs and refunds amounted to Rs. 13.06 lacs out of which refunds of the duty on sugar accounted for Rs. 5.08 lacs as against the total receipts from the duty of Rs. 12.43 lacs. The receipts from Octroi have practically remained about the same since 1909-10 (Net yield in thaet year being Rs. 14.23 lacs). During the same period ncom from House Tax has increased from Rs. 39.69 lacs in1909-10 to Rs. 140.60 lacs in 1939-40. The Town Duties are now really of secondary importance and yet in spite of high refunds and other disadvantages the Bombay Corporation proposed revised rates in 1939-40 to increase their income from this source by Rs. 8 lacs. High refunds are a fairly common feature of municipal revenue in the other octroi-levying Provinces also. Refunds of duty on sugar are generally heavy. A few more facts may be cited by way of illustration. In Northern Division of the Bombay Presidency, for example, refunds of sugar duty amounted to nearly two-fifths (Rs.65 thousand out of Rs. 1.45 lacs), in C.P. over half (Rs. ·43 out of Rs. ·81 lacs) in N.W.P. a little less than half (Rs. ·45 lac out of Rs. ·98 lac) in the U.P. also about one half (Rs.2.23 lacs out of Rs. 4.53 lacs). A few cases of large refunds of duties on other articles may also be given. In Northern Division of the Bombay Presidency nearly one-third of the duty on foodgrain, etc., had to be refunded (Rs. 1.13 lacs out of Rs. 3.27 lacs), in Rawalpindi, an important municipality in the Punjab, nearly one half (Rs. 2.11 out of Rs. 4.66 lacs), in N.W.P. nearly one-third (Rs. 1.11 out of Rs. 3.41 lacs) and in C.P. two-fifths of the duty on cloth (Rs. 90 lacs of Rs. 2.25 lacs). It would be possible to give many more cases of large refunds, but it is hardly necessary to do so. It is not easy to get refunds of municipal taxes when they are due, but in spite of it the refunds are heavy in a large number of cases and involve

inconvenience and expense which are unavoidable under the octroi system.

Another very undesirable aspect of Octroi, to which a brief reference has to be made is its regressive character. Octroi is levied under eight heads and has been so collected ever since its re-introduction in the sixties of the last century. Of these class I which includes foodgrains and other necessaries of life is the most important. Incidence of Octroi, like that of all indirect taxes, is not easy to define, but generally speaking it can be assumed that it mainly rests upon the consumers and as much larger portion of the income of the poor is spent upon articles subject to octroi and terminal tax, they contribute by far the largest proportion of the income derived from indirect taxation by urban local bodies. The table in the footnote[1] gives incidence of octroi and of taxation per head in the various Provinces. The proportion of the incidence of Octroi varies but is well above one-half ($\frac{1}{2}$) in most cases and indicates the very unfair distribution of the burden of local taxation in urban areas, preference for indirect taxation in these areas is really due to this fact and is, of course, easily intelligible.

The condemnation of Octroi as an extremely bad local tax has been made since 1835—the year in which Sir Charles Trevelyan submitted the report on Town and Transit Duties—and been repeated in the successive

[1] *Incidence of Taxation and Octroi per Head in* 1939-40

	Incidence of Taxation	*Incidence of Octroi*
	Rs. as. p.	Rs. as. p.
Bombay Northern Dn. ..	7 3 2	2 9 6
„ Central Dn. ..	5 0 11	3 1 3
„ Southern Dn. ..	4 0 1	1 14 11
U. P.	3 10 1	2 6 1
C. P.	4 3 11	2 4 3
Sindh	5 0 6	3 7 2
N. W. P.	4 3 6	4 1 8

resolution of the Government of India, and reports of the U.P. Municipal Taxation Enquiry Committee and in other official declarations, and yet the only action which has, as already stated, so far been taken with the avowed object of reducing its importance and remedying its evils is the substitution of terminal taxation for octroi. This course was recommended by the U.P. Municipal Taxation Enquiry Committee and the Government of India in their Resolution of 1915 and 1917 approved of it. Since then the process has gone on apace but there is slackening enthusiasm for it and after 1929-30 the tendency to revert to octroi in a number of cases has made its appearance. In 1939-40, taking India as a whole proportion of receipts from terminal tax to the total revenue from both octroi and terminal tax had fallen to 47 p.c. from 53 p.c. in 1929-30. But terminal tax is being levied in important commercial centres like Karachi, Amritsar, Cawnpore, and Ahmedabad; and it is very unlikely that in the Provinces in which terminal tax has gained importance, it will lose it appreciably unless the underlying policy of local taxation is deliberately and radically changed.[1]

From the table it is clear that though in the last decade the progress of the Terminal Tax has been arrested, in the country as a whole it is holding its own. In the U.P. and the Punjab the Octroi has regained some of the ground lost in the preceding two decades. This is due partly to the pressure exercised by the Government of India,[2] but the position is still very unsatisfactory and the wider

[1] Vide Table on p. 63.

[2] Under the Government of India Act, 1935 the Terminal Taxation has become a federal source of revenue and the Government of India have, in their Circular No. 183 dated the 2nd April, 1938, indicated the limit within which the continued imposition of this tax is permitted. Under the restriction laid down in the circular the local bodies which were levying Terminal Taxation immediately before the 1st April, 1937 can continue to levy the same; they

considerations, on which the settlement of the issue should depend, are not receiving anything like their due attention or appreciation.

The popularity of the Terminal Tax[1] as a substitute for Octroi is due to the fact that it does not involve refunds and collection of the tax is taken over from the Municipal Staff. The Terminal Tax is generally collected through the agency of the railways and there is complementary duty on goods imported by road. The rates of the tax are specific and not *advalorem*, and classification of goods follows as closely as possible the classification of railways. The cost of collection is a matter of agreement between the Municipalities and the railways but generally varies from three to five per cent. Though there have been cases in which the rates of the tax have been very high,[2] the rates

can reduce but not increase the rates of the tax, they cannot add new items to the Schedule or extend the scope of the tax and, of course, no local body can introduce terminal taxation after April 1, 1937. The intention is that the Central Legislature would ultimately prohibit the levy of terminal taxation by the local authorities and use it, if necessary, as a federal source of revenue. This policy would, if given effect to, put an end to the tendency to revive transit duties in the guise of terminal taxation.

[1] The receipts from the Terminal Tax in the different Provinces, their proportion to the total receipts from the Terminal Tax and Octroi and the number of towns which levied these taxes in 1920-21, 1929-30 and 1939-40 are given in the table (on page 64) to give an idea of increasing importance of the Terminal Tax in the finances of the Municipalities.

[2] The following quotation from the statement made by Mr. G. M. Sim in his evidence before the Taxation Enquiry Committee gives some idea of the cases in which the necessity of keeping the terminal tax low has been disregarded:—

"A wide range of commodities has been subjected to this impost and rates fixed in some instances are very high, for instance, the rate of the tax on cloth of all kinds including hosiery and socks in three of the Municipalities in the Bombay Presidency is from 8 to 11 as. per maund. In one of the Municipalities of the U. P. "piece-goods have to pay 8 as. per maund and the same rate is charged in two other Municipalities on haberdashery and millinery, etc., and on

Province	No. of Towns levying Octroi			Total Receipt from Octroi and Term Taxes			Total Receipts from Octroi			Total Receipts from T.T.			Proportion of T. T. to total Receipt		
	1920-21	1929-30	1939-40	1920-21	1929-30	1939-40	1920-21	1929-30	1939-40	1920-21	1929-30	1939-40			
				Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Pc.	Pc.	Pc.
Bombay	102	76	61	39.64	66.13	52.04	39.64	30.32	26.12	9.32	36.02	25.92	23	55	49
U. P. ..	29	40	45	41.26	66.43	75.83	41.26	30.91	38.91	10.35	30.66	37.92	25	46	49
Punjab	91	76	61	61.64	69.47	81.92	64.64	55.91	39.42	5.13	37.89	43.50	9	54	52
C. P. ..	20	16	16	14.43	27.01	23.77	14.41	11.81	8.88	2.60	17.82	14.89	9	66	62
Sindh..	..	..	14	..	..	25.30	..	..	6.50	..	..	18.80	..	..	75
N.W.F.	..	..	6	..	..	10.12	..	..	9.06	..	..	1.06	..	..	10
India ..	240	208	203	156·95	229.10	268.98	128.95	106.71	128.89	28.00	123.39	141.12	12	53	47

are generally lower than the octroi rates and for the convenience of the railways the exemptions have to be reduced to a minimum.

These are distinct gains the importance of which has to be fully appreciated. The administration is simple, convenient, and inexpensive. The worst evils of Octroi are avoided and the relief which that brings to the merchants, the general public, and the municipal authorities makes the tax more generally acceptable.

The absence of provision for refund makes the Terminal Tax a transit duty or tax on through trade to the extent to which the burden of the tax falls on non-residents. It has been urged that since the trade is freed from vexatious interference incidental to the administration of Octroi, it is more than compensated for the burden which falls upon it by the system of non-refundable light duties. If this argument is to hold good, it is necessary that the rates of the Terminal Tax should be really light and subject to the control not only of the Provincial Government, but also of the Government of India. It has been already stated that this control is very slight at present and will have to be provided for if the system of terminal taxation is not to be used for transferring an unduly heavy share of local taxation to the general population of the country. The same consideration, of course, suggests the necessity of the Government of India exercising control over the octroi rates if Octroi is not completely replaced by the Terminal Tax everywhere. The recommendation of the Taxation Enquiry Committee[1] that the Government of India should retain a full measure of control over both Octroi and the Terminal Tax emphasises a principle which is of very great importance, and has to be applied if the

cigars and cigarettes. In some places in the Punjab the tax is as high as Re. 1-4 per maund on piece-goods, Re. 1 on dye and matches and As. 10 on dried fruits, oilman's stores, leather, and spices.'

The Taxation Enquiry Committee Report, Vol. VII, p. 567.

[1] *The Taxation Enquiry Committee Report*, para. 408, Vol. I.

Indian tax system is to have and retain an integrity of its own.

This control is necessary also for another reason which too has an importance of its own. The collection of the Tax through the railways is possible only if the policy which the Municipalities follow meets with the approval of the former in the sense that the scale of rates and the classification of goods should not cause them serious inconvenience or upset their calculations. "The railways cannot," said Mr. Sim in his evidence before the Taxation Enquiry Committee, "be turned into a tax-collecting agency for local authorities each one of which develops its own scale and classification of goods." The railways in India can and ought to be used for all public functions which can be conveniently or efficiently carried out by them and, therefore, their co-operation for the administration of the Terminal Tax need not be regarded as outside the province of their activities. But it is necessary, if the railways are to be used for this purpose, to ensure that there will be no disharmony between the needs of the efficient administration of the railways and the duties which they are required to carry out for the convenience of the local authorities. If the rates are pitched high and the schedule is divided into many classes and includes differential rates, the collection of the Tax will throw an amount of work on the railways which will dislocate their own work and necessitate readjustments which they ought not to be called upon and may not be able to make.

This is particularly true of the effect of the rates in the municipal schedules on the rates and fares of the railways. The determination of the latter, it is well known, require very careful consideration of many and diverse factors. The fixing of railway rates ought to depend upon a very well-considered balance of various factors of ever-changing importance and they ought to be altered in the light of circumstances from time to time. The application of the principle of 'charging what the traffic will bear is,' in other words, a matter which is based upon calculations that

can be easily upset by thoughtless or haphazard action. The superimposition of the terminal rates over the railway rates introduces an entirely new factor into the situation, which can, if they are drawn up without sufficient care or regard for the interest of the railways, have a disturbing effect on the working of the railway rates. It has already been said that the octroi schedules are framed without any knowledge of the trade conditions or appreciation of their far-reaching effects on the structure of economic life. The same is true of the Terminal Tax rates, for the Municipalities and the Provincial Governments are in no better position to deal satisfactorily with the Terminal Tax rates than they are to deal with the octroi rates. But in the case of the Terminal Tax rates not only the trade conditions but also the needs of the railways have to be taken into account. If the rates are low and their variations have a limited range, they may not have very disturbing effects on the railway rates. But if they are high and subject to wide and haphazard variations, they are likely to have very adverse effects on the working of the railway rates. The present position of the Terminal Tax renders it necessary that it should again be placed under the regulatory control of the Government of India. The case has already arisen in which the arrangement between the railways and the local bodies for the collection of this tax has broken down and the latter have had to collect it through their own staff. This is obviously very unsatisfactory and it is of the utmost importance that safeguards should be provided against similar contingencies in the future.

The central regulation of the terminal tax rates may minimise the disadvantages of this form of local taxation, but even then it has to be considered whether it ought to be retained as a source of local revenue. The desirability of substituting it for Octroi rests on the fact that the safeguards, which are considered necessary in order to prevent Octroi from becoming a transit duty, are dispensed with in the cases of the Terminal Tax; and that is done because

of the two evils of the vexatious and corrupt administration of Octroi and the incidence of a part of the burden of the Terminal Tax on through trade and, therefore, on the general population of the country, the latter is considered the less serious. That is undoubtedly so, but it is all the same necessary to take the full significance of the transference of the burden of this Tax from the urban to the rural areas into account.

The fact of this transference cannot be disputed. In the case of the ports, of course, it is so very obvious that it is hardly necessary to stress it. Bombay has to refund more than half of its octroi receipts and if it substitutes the Terminal Tax for Octroi and does not increase its net receipts from the indirect taxation, it will be shifting more than half the burden of the tax to the general public[1]. That the Cotton Duty imposed by the Bombay Government under the Act of 1920 was, in effect, an export duty, the revenue from which were shared up to 1931 by the Provincial Government and the Bombay Corporation, admits of no doubt. As India has not got a monopoly of cotton and is not in a position to dictate its own terms to the customers, it may be assumed that the produces of raw cotton were being taxed for the benefit of the Bombay Government and Corporation. Karachi has already introduced the Terminal Tax in place of Octroi. In 1920-21 its octtoi receipts amounted to Rs. 5.59 lacs. In 1928-29 its Terminal-Tax receipts were Rs. 9.02 lacs and in 1939 Rs. 10.95 lacs. The total Tax revenue of Karachi Municipality increased from Rs. 21.04 lacs in 1920-21 to

[1] The Bombay Corporation has, as a matter of fact, actually proposed to the Provincial Government the replacement of its Octroi by the Terminal Tax. The Provincial Government has not granted the necessary permission. As the incidence of the Terminal Tax will not be confined to the people of the Bombay Presidency, the Bombay Government can, by permitting the Corporation, to substitute the Terminal Tax for Octroi, tax the people of other Provinces. The Terminal Taxation is really a system of inland customs and the abrogation of central control over it cannot but give rise to inter-provincial complications.

Rs. 30.55 lacs in 1928-29 and Rs. 37.40 lacs in 1939-40. This increase was in part due to the increase in the receipts from the Terminal Tax. Karachi has, by shifting a considerable proportion of its burden of the Terminal Taxation, secured a great deal of relief from taxation and possibly decreased its own average incidence per head in spite of large increase of total revenue. The same considerations apply to the Timber Tax in Madras and also to the Tax on jute levied by the Calcutta Improvement Trust. The imposition of the terminal taxation by these local bodies may have the advantage of convenience but cannot be justified on the grounds of equity.

In the case of the inland towns the shifting of taxation changes its incidence in the same way and whatever difference there is, is one of degree and not of kind. If we for illustration, take the four large inland Municipalities which have substituted the Terminal Tax for Octroi, we find that though they have improved their finances and fiscal administration by the change, they have done so by shifting a large proportion of their tax-burden to the rural population. The following table speaks for itself.:—

	I	II	III	IV	
	Receipts from Octroi in 1920-21	Refunds in 1920-21	Proportion of II to I	Receipts from Terminal Tax in	
				1929-30	1939-40
	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)
Lucknow ..	6.51	.93	15 p.c.	5.97	9.06
Lahore ..	12.54	2.47	20 p.c.	13.79	17.18
Amritsar ..	6.10	1.38	23 p.c.	8.81	9·77
Nagpur ..	4.82	1.18	24 p.c.	4.20	6·20

These four Municipalities are all now deriving nearly 50 p.c. larger income from the Terminal Tax than they were getting from Octroi in 1920-21, and if we assume that withheld refunds are now no larger than they were in 1920-21 at least one-fifth of this income they get from the

non-residents. The ports, the larger and the smaller towns are all better off financially and otherwise by replacing Octroi by the Terminal Tax, but as remarked above, whatever may be said in favour of the change on the ground of economy and convenience, there is very little to be said for it on the ground of equity.

It may, however, be urged that the considerations of equity have to give way when the insistent demands of administrative efficiency and convenience make a particular change imperative. Even from the standpoint of convenience it is not certain that this change will be an unmixed good if the terminal taxation becomes as universal as it can become in absence of effective control. If the towns levy this tax for their purposes, there is nothing to prevent the District Boards and even their subordinate authorities to levy it for their own. The law empowers them to levy this tax for local purposes, and the Provincial Governments, whose sanction has to be obtained for its introduction, cannot well withhold it, knowing as they do the inelasticity of their resources and the extremely low level of their development. The knowledge of the crying needs of the rural areas will impel them to permit the rural local authorities to augment their resources by having recourse to the Terminal Tax if the towns are to make it the main source of their revenue. Some of the District Boards have already taken steps to levy the tax, and as the conditions are everywhere the same and the disposition of the public authorities to turn to the indirect taxes, whenever they are seeking to enlarge their revenues, is also ever present, it is not unlikely that the movement will spread and make the Terminal Tax even a more common impost than it is at present.

The universal imposition of the Terminal Tax will hamper trade and cause serious inconvenience to the railways. The use of this power, which has so far been made by the local authorities, has already made the railways reluctant to get involved in the administration of the Terminal Tax; but if this power is much more freely and

extensively used, a very different situation will arise from what was anticipated in 1915 when the Government of India gave their tentative approval to the substitution of the Terminal Tax for Octroi, and a reconsideration of the whole question will become necessary in the light of the changed circumstances.

But apart from the consideration of the convenience of the railways, a universal or even an extensive imposition of the Terminal Tax will revive the evils not of the town but the transit duties; and the gravity of the evils will be all the greater because of the allocation of the receipts to the local authorities and their administration by them. Even if the rates of the Tax and the conditions of its administration are brought under the control of the Government of India, which, as remarked more than once, is not adequate at present, the evils may be mitigated to a very limited extent but will not thereby be remedied in any large measure. Universal terminal taxation will really amount to universal excise and what that will mean under the modern economic conditions can be easily imagined. The Terminal Tax is levied on all commodities—imports, exports—and goods liable to the custom duties. The fact that a particular Municipality like Cawnpore is a centre of large export trade is taken as affording special justification for the levy of the Terminal Tax on exports. That means that the local bodies at such places are, to the extent to which their competitive position in the market permits them, to be allowed to exploit it to their advantage and tax the rest of the country for local purposes. The local authorities have already shown a tendency to set at naught or accentuate the effects of the custom-duties by varying their rates without any regard for the interests of the country as a whole. There is bound to be confusion worse confounded if the tariff policy of the country, with all its national and international complications, is to be modified materially by the local authorities by the imposition of the Terminal Tax on every article of commerce. It is, therefore, very doubtful whether even from the standpoint of

convenience and economy the advantages, which accrue to the Local Authorities by levying this tax, are not more than neutralised if this matter is looked at from the national standpoint and also in the light of the developments which can easily be anticipated.

But it is possible to go further and make equity a more crucial point in the settlement of the point at issue. The only justification for the levy of Octroi and the Terminal Tax in the Provinces, in which they are the backbone of municipal finance, is that "the genius of the people" makes it impossible to raise equivalent income in any other way. The genius of the people is a blessed phrase, but the result of the policy, which has been followed under its cover, is that the rural classes have to carry a heavier burden of taxation. The classes thus adversely affected can, with good reason, claim that this re-distribution of the burden of taxation in the name of administrative convenience and social psychology is unfair in itself and becomes much more so when it is borne in mind that they are already paying more than their fair share of provincial and central taxation, and what is more their 'genius' is in no way different from that of the classes who are beneficiaries of this policy. Mr. Blunt in his note[1] on the system of taxation in the United Provinces, which he submitted to the Taxation Enquiry Committee, calculated that at least 80 p.c. of provincial taxation was paid by people in the country. If similar calculations are made for the other Provinces, the results will also show that the rural classes have to pay more than their due share of taxation everywhere. Their contribution to the central revenues are not as large, but even then any one, who has even an elementary knowledge of Indian finance, can take it as an axiom of the existing situation that if any change is to be made in the tax system of the country, it must have the twofold object of giving relief to the poorer and the rural classes. The Terminal Tax, therefore, is an unfair tax from the point of view of the rural

[1] *The Taxation Enquiry Committee Report*, Vol. IV, p. 428.

classes, and their point of view cannot and ought not to be disregarded.

The disadvantages of the Terminal Tax mentioned in the preceding paragraphs arise because of the fact that it is a local tax. The receipts from the tax go to the local treasury while its incidence is widely diffused, and the determination of its rates and its administration by the local authorities leads to consequences, actual and potential, which are likely to impair the integrity of the tax system, hamper trade and be otherwise disturbing for the railways and the general public. If this or a similar tax can be levied, assessed, and collected by the Provincial Government and its receipts allocated to the local authorities on some equitable basis, it may be possible to meet the most serious objections to its imposition. Such a proposal was, as is well known, made by Sir Walter Leyton in his recommendations[1] in the Report of the Simon Commission. His proposal was made without any reference, and, as a matter of fact, in utter disregard of the problems of local taxation. He recommended the levy of a Terminal Tax at a low rate for *provincial* purposes at *every* railway station.

Sir Walter's proposal has now practically lapsed in spite of the provision having been made in the constitution of 1935 for the levy of Terminal Tax by the Federal Government for the benefit of the Provincial Governments. But if this provision were put into effect, it would have an important bearing on the revenue position of Local Authorities for it would obviously be undesirable to let the local octroi and terminal taxes remain in force when a federal terminal tax is introduced. The imposition of the federal tax would necessitate the abolition of both the local Octroi and Terminal Taxes and that will raise the question as to how the urban and in some cases rural local authorities concerned should be compensated for the loss of their revenue derived from their taxes.

But as the whole scheme of federal finance, under

[1] *The Simon Commission Report*, Vol. II, para. 274.

which the levy of federal terminal tax was provided for, will have to be revised when the new constitution for India becomes a matter for negotiation and common agreement after the war, it is not necessary to develop the point further. It may, however, be stated that the administration of federal terminal tax would give rise to some difficult problems owing to the necessity of levying complementary tax on road and river traffic because of the growing importance of road traffic in the country and attempt will have to be made to avoid conflict between Terminal Tax and the Sales Tax—another tax on consumption which the Provincial Governments are empowered to levy on their own authority and which most of them have already introduced in one form or the other. This conflict will be difficult to avoid and the assessment of the two consumption taxes on the distribution of goods will give rise to multiple taxation and increase the tax burden of the already over-taxed poorer tax payers. From the point of view of the administration and incidence of taxation the conflict between the Sales Tax and the Central Excise Duties has already arisen and from the legal standpoint has already been settled. The constitutional right of the Provincial Government to levy taxation on the sale of selected commodities has been questioned by the Government of India, but their objection to it has been over-ruled by the Federal Court and selective Sale Taxes are being levied by a number of Provincial Governments. But that does not settle the issue. There are, for example, provincial taxes on the sale of tobacco and recently an all-India excise duty on tobacco has been introduced which is expected to yield Rs. 12 crores in the current year (1943-44). These provincial and central taxes are essentially identical, and though there may be no objection to taxation by the Central and Provincial Authorities of a commodity like tobacco, further development of excise duties will increase our administrative difficulties and also the likelihood of conflict of tax jurisdiction. The new Excise Duty on Tobacco has been imposed as a war measure and its receipts are to be appropriated for central

purposes, but there is a provision for the distribution of the receipts of the Excises and Salt Tax[2] among the Provinces on an agreed basis. If the state of the central finances after the war permits the assignment of these receipts to the Provinces for the development of social services, objection to the parallel imposition of the Excises and Sales Tax on the ground of the excessive tax burden on the poorer classes will be largely mitigated. But even then it will be necessary to exercise central administrative supervision and control over the Sales Taxes imposed, assessed, and collected by the Provinces if administrative conflicts are to be avoided or smoothed out.

The more cardinal objection, however, that the further development of the consumption taxes by the Provinces and the centre will increase the regressive character of our tax system will remain and will have to be, at least partially, countered by giving to the progressive direct taxes, like the Income and Inheritance Tax, a far more important place in our tax system than they occupy at present. Given the support or rather the pressure of the enlightened public opinion it should be possible to achieve this result. In India it is extremely desirable to strive to redistribute tax burden on a fairer basis by taxing the well-to-do section more heavily than they are being taxed at present; but unfortunately owing to the bulk of the people being exceedingly poor and the rich being a very small minority, it is not possible to bring about appreciable increase in the income of public authorities badly needed for the regeneration of the country without increasing the tax burden of the masses. If increase in their burden can be offset by giving to the people substantial return in the form of better health, education, and communications through the rapid development of social services, the increased tax burden of the masses can be taken as a form of social investment for betterment of the lives of our people.

Looking at the matter from the standpoint of local finance the above considerations have an important bearing on the position of local indirect taxes in this country.

Octroi, Terminal Tax, and Tolls which are referred to in the subsequent paragraphs—are all undesirable taxes and their evils—actual and potential—cannot, as stated already, be remedied. Experience of nearly 90 years of Octroi makes it clear that it cannot be rid of its grave defects and the Terminal Tax—its alternative—is open to equally serious objections and its substitution for Octroi does not improve the situation or if anything makes it worse. The abolition of these taxes is pre-eminently desirable if this can be achieved without putting serious strain on the finances of the local authorities concerned. The Taxation Enquiry Committee of 1926 recommended that taxes be replaced by a tax on retail sellers to be assessed and collected by the local bodies for their benefit. Since then the Sales Tax has, under the new Constitution, been imposed by the Provincial Governments and the revenue derived from it, as already stated, goes to the provincial treasuries and the position with regard to local indirect taxation remains as unsatisfactory as ever.

All public authorities in India, Central, Provincial, and Local—are sorely in the need of funds and their need after the war will become even greater and, of course, far more imperative. There is no chance of this need being even half satisfied unless our economic resources are far more fully developed by careful national planning. This is so obvious that it can be taken as an axiomatic fact of the existing financial situation. But if it is borne in mind that the Local Authorities are entrusted with duties upon the efficient discharge of which will depend the future of the nation, it will be realised that the expansion of their revenues is of the utmost importance for the nation and it is essential that considerable portion of the revenue which may be derived by the introduction of new taxes by the Provinces should, as a matter of general policy, accrue to their benefit, i.e., be made available for the development of the services for which they are held responsible. Since 1937 a number of new taxes, some of them fairly productive, have been introduced by the pro-

vinces. But the receipt from these taxes have in almost all cases been used by the Provincial Government for general purposes and the Local Authorities have not been directly benefited by their imposition.

Among the new taxes the Sales Taxes are probably the most important. Their yield in 1940 amounts to Rs.153[1] lacs but as these taxes are still new taxes, their rates are low and experience and machinery for their efficient assessment and administration have still to be developed, it can be confidently assumed that their yield is capable of very appreciable expansion and can be utilised for the development of national services for which Local Authorities are responsible. The objection to the Sales Taxes on the score of their being regressive can almost be fully met if their receipts are spent for the benefit of the masses —are practically earmarked for the development of local beneficial services. This course is also suggested by the need of avoiding confusion which is likely to arise from the imposition of consumption taxes both by the Provincial and Local Authorities; and if to this consideration is added the desirability of abolishing the existing local taxes on consumption, i.e., Octroi and Terminal Tax, the case for using the receipts from the Sales Taxes for developing local services becomes even stronger.

This course, it is suggested, should be adopted as a measure for increasing local revenues and carrying out the long-deferred proposal for abolishing Octroi and its substitute Terminal Tax. The Sales Taxes should be levied and developed in all Provinces subject to central regulation and their receipts distributed among the Local Authorities. This is highly advisable for two reasons. In the first place the Sales Tax has already found favour with the Provincial Government and their further development does not involve any fresh departure. The fact

[1] Since then yield of sales tax has considerably increased and in the Madras Presidency alone the revenue derived from this tax in known to exceed Rs. 4 crores p. a.

that this tax is being levied by a large number of countries in Europe and America and has an established position in the tax systems of a number of important countries as a productive source of public revenue further reinforces the points and gives us a fund of experience to draw upon and be guided by. The second reason in favour of this course is that if receipts of this tax are distributed among Local Authorities, that will not only increase their revenue but facilitate the reform of their tax system in the Provinces in which local indirect taxation occupies a position of disconcerting importance and is difficult to replace on that account. This tax should be the more readily acceptable to the tax-payers in the Provinces if its receipts are earmarked for local bodies and utilised by them for providing fully developed services like health and education.

This change can at this stage be introduced the more easily owing to the relatively undeveloped state of sales taxation in the Provinces. The latter as yet are not dependent upon it to any great extent for carrying on provincial administration and will not find the assignment of its receipts to the local bodies embarrassing for their finances. The development of local services, though a function of Local Authorities, is of national importance and cannot be put off any longer. The Provinces will have in any case to find money for it since the Local Authorities are in great financial straits and will not be able to raise funds locally for this purpose. This development has to be made the first charge on not only provincial but also national resources, and any additional revenue that can be made available through the imposition of the new taxes and the development of the old ones, has to be devoted for a considerably long time for satisfying as adequately as possible the need for more and better education, more and better health services, more and better communication. Assignment of the Sales Tax receipts by the Province for local services will, therefore, not involve any sacrifice on the part of Provincial Treasuries

or neglect of some other public needs which have or should have a higher position in their scale of priorities. This transfer of funds would metely be a convenient method of using this new source of revenues for a purpose regarding the supreme importance of which there can be no two opinions.

It has been said that this tax is relatively undeveloped at present. It is really at an expetimental stage. Only four Provinces, i.e., Madras, Punjab, Bengal and Behar have introduced Sales Taxes which are so fairly comprehensive and even there the rates are low, administrative machinery inadequate, and confidence based on experience is lacking. In the other Provinces only selective Sales Taxes are being levied and their yield is not large. The experience of the other countries points to the possibility of a much higher degree of productivity of the tax. It is not possible to forecast its yield when it is fully developed. But if we take into account the fact that the Federal Tobacco Excise is expected to bring Rs. 12 crores in the first year of its levy—and Tobacco Excise Duty is really a Sales Tax on Tobacco—, it is reasonable and not over-optimistic to assume that with full development of this Tax its yield can be multiplied manifold; and if a rough and hazardous guess is permissible, revenue of Rs. 20 crores for all the Provinces will be found not an exaggerated estimate of what we may well expect to raise by the imposition of this tax by the Provincial Governments for the benefit of the Local Authorities at the initial stages of its growth and the amount is sure to increase with improvement in administrative efficiency, expansion of internal trade, and its better organisation.

It is not proposed to examine the administrative and fiscal aspect of Sales Taxation in greater detail. Some difficult administrative issues are sure to arise but will not present insuperable difficulties. The forms in which this tax is levied vary and we will have a range of

choice which will have an advantage of its own. The Taxation Enquiry Committee had recommended as stated above levy of a tax on retail sales only and by the Local Authorities themselves. So far as the base of administration is concerned, it is safe to venture an opinion that provincial administration of the tax will have decided advantages of its own and should be preferred to local administration even if the tax is levied on retail sales only. But in India retail seller in a vast majority of cases a very small man—a man of limited resources, small business, ignorant, and difficult to handle. The cost of collection of a tax on retail sales is likely to be heavy owing to the number of assesses being enormous and may set up a strain which it would be probably wise to avoid, at any rate in early stages, of sales taxation in India. It will be probably desirable to tax the small tradesmen by a system of licence fees according to their estimated turnover and confine the tax itself to merchants with turnover above a fairly high limit and that would make all the wholesale merchants and the merchants who combine wholesale and retail selling in different degrees in their business liable to the tax. These and other points are, however, matters which cannot be considered here. The point which is really relevant for our purpose is that the Sales Tax can and should be imposed by all the Provinces and its receipts should be used for developing local services. The Tax is known to be a good revenue producer and provincial administration of the tax is likely to be adequate and efficient if it is properly organised.

Provincial administration will, however, have to be subject to central co-ordination. For this there is no provision in the existing constitution. Sales Taxation can be re-administered as to make it discriminatory, specially in the case of Sale Taxes on selected commodities and the Provinces in which particular industries or crops are centralised can use their privileged position to tax the people of other Provinces by taxing their

exports also and other occasions for inter-provincial conflicts can arise and will have to be avoided. It will be necessary to avoid taxation of enterpôt trade and provide against Sales Taxes becoming merely transit duties. It will be difficult to ensure that incidences of their taxes should always be on the consumers but the object in view should be to make them consumers' taxes as far as possible and limit their incidence to the residents of the Province which imposes them. Another reason when central regulation and control of Sales Taxation will be needed will be that there will be a great deal of overlapping between the central excise duties and Sale Taxes which cannot be avoided unless there is co-operation and full understanding between the Central and Provincial Administrations. There is, as already stated, no provision for central regulation and control of provincial Sales Taxes at present and the need for its introduction will have to be kept in view and provided for in the post-war financial settlement.

It may, however, be said in conclusion that Sales Tax, though it may be necessary to impose it, is not a good tax. It is regressive in its effect, is disturbing for trade and commerce and at times causes a rise of prices out of proportion to the rate of the tax. From this point of view it has two redeeming features. It can be introduced as a substitute for local indirect taxation which is now an anachronism and can be made very productive. New taxes which can be levied in this country for the badly needed enlargement of public revenues are very few and Sales Tax is one of them which has great promise, and if its receipts are allocated to the Local Authorities, its disadvantages will be more than offset by its advantages. Sales Tax is, to repeat, not a good tax, but can and has to be accepted by us as a necessary evil.

There is one other point with regard to the Sales Tax which is important but the treatment of which has to be reserved for the next chapter. Assignment of the Sales Tax to the Local Authorities will make it necessary

to distribute its yield among them on some basis which can be accepted as fair and reasonable. But the point will have to be dealt with after the position of local direct taxation has also been examined and the question of reform of local tax system as a whole can be comprehensively treated. For the present it is sufficient to say that receipts from sale taxation can be used to replace the revenue derived by Local Authorities from Octroi and Terminal Tax and the abolition of the latter will become a practical proposition when and if the Provincial Government levy and develop the Sales Tax to supplement and increase the resources of local bodies.

It was necessary to deal with Sales Tax here because of its relation to indirect local taxation but before the discussion of local indirect taxation is concluded, the position of Tolls—which is also an indirect local tax—in the system of local taxation in India has to be briefly explained. Tolls were once important in most countries but now they exist if at all as survival of the past and have no practical importance.

The Government of India have ever since 1886[1] tried to keep a check on the tendency of the local bodies to rely unduly upon the source of revenue and impressed upon them the necessity of devoting the receipts from it to the construction and maintenance of roads. The present position of tolls in the local tax system of the Municipalities and the District Boards is shown in the following tables:—

Toll Receipts of the Municipalities and the District Boards of the various Provinces in 1929-30 and in 1939-40.

[1]Government of India Resolution No. 1115, dated 25th March 1886.

Provinces	Municipalities						District boards					
	I		II		III		IV		V		VI	
	Toll Revenue		Total Tax Revenue		P. C.		Toll Revenue		Total Tax Revenue		P. C.	
	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40
	Rs. (lacs)		Rs. (lacs)				Rs. (lacs)		Rs. (lacs)			
Bengal	1.34	1.58	71.32	79.42	2	2	6.39	4.35	86.17	75.58	.74	.57
Bombay	4.48	3.05	165.60	149.64	2	2	6.39		58.65		10.9	
Madras	17.83	23.6	70.08	76.05	25	30	45.15	59.24	109.47	146.19	41	40.5
U.P.	4.87	6.03	108.85	184.60	4	3	6.42		83.20		77	
Punjab	.55	.51	79.55	132.20	.7	.38						
C.P.	.53	.95	49.23	48.83	1	1.9	.83	.39	20.96	22.42	3.9	1.7
Assam	.45	.17	7.16	8.64	6	2	1.92	1.78	13.52	12.49	14	14
Sindh		.42		20.66	12	2		1.28		14.39		8.8
Bihar & Orissa	.91	1.81	29.44		3		3.61	.18	76.30		4.7	

Madras is, it will be seen, the only province in which the toll receipts are an important item of local revenues, though the rural local bodies are getting an appreciable proportion of their tax revenue from this source.[1] In Madras the collection of toll receipts is leased out, the rates being fixed by the local bodies subject to the maxima laid down in the Acts. In the other Provinces generally the local bodies employ their own agency though they too have recourse to farming in a few cases. The toll receipts are still shown as income of the civil works department in the accounts of most of the local bodies, but now on the whole there is no direct relation between the amounts spent on roads and the amounts realised from tolls. Only in a very few cases the rates are fixed specifically with a view to recover the cost of construction and maintenance of some important local work. Tolls levied by the Municipalities are a counterpart of their taxes on licensed carriages and carts and may be regarded as fees for the use of the municipal roads by the non-registered carts. But, taken as a whole, tolls are to be regarded as taxes and not free or public prices, and their suitability or otherwise for local purposes has to be judged by their merits and demerits from the standpoint of taxation.

In Madras tolls are treated as a tax on trade and, therefore, taken to occupy the position analogous to that of the local indirect taxes in the octroi and terminal taxes levying Provinces. In the other Provinces, apart from the undefined relation between tolls and the cost of maintenance and construction of roads, there does not seem to be any theory as to the basis on which tolls are to be levied. In the Provinces in which they are not important, there does not seem to be any tendency to develop them for augmenting local revenues. In Madras the revenue derived from them has considerably increased in

[1] Importance of tolls has, as a matter of fact, decreased in the last decade and some Municipalities of Madras and all District Boards of Bombay have had to discontinue tolls and been compensated for the loss of revenue from the receipts of the Motor Vehicles Tax.

the last decade but it is recognised that they are not a desirable feature of system of local finance in the Presidency, and ought, if possible, to be replaced by some other taxes. Mr. C. B. Cotterell, in his evidence before the Taxation Enquiry Committee on behalf of the Local Self-Government Department, Madras, put forward the view that India may be taken to have reached the standard of civilization which would make the abolition of tolls highly desirable.[1] The abolition of tolls is more a question of convenience than of civilization; but it may be granted that the levy of tolls is an impediment to trade which should be removed. The future road traffic will, it is certain, be more and more motor traffic, and the existence of tolls will become all the more irksome when habits born of slow locomotion by carts give way to hustle which the modern vehicles inevitably bring in their train. Tolls will, therefore, have to be abolished because in these days of free and rapid communications, they are an unmitigated nuisance. But the decision as to whether they should be abolished in a particular case will depend more upon consideration of expediency than of principle.

If a wholesale Sales Tax is levied, revenue derived from a number of selective indirect taxes like Tax on Transfer of Property, Tobacco Licence Duty, and Petrol, whose receipts are now appropriated by the Provincial Governments will also have to be assigned to or rather distributed among the Local Authorities. The provincial tax on the production and sale of intoxicants, i.e., restrictive excise duties is a case by itself and will have either to be re-transferred to the Government of India if the Provincial Governments can be compensated for the loss of revenue or a national country-wide policy of Prohibition put into effect. The latter course is likely to be costly and force upon the country the policy of choosing between development of services and making the country 'dry', and in spite of the past history of the

[1] *The Taxation Enquiry Committee Report*, Vol. VII, p. 287.

question and its political aspects, the public in future may realise that the use of intoxicants is not excessive or at least excessive enough to reform or justify our making 'temperance' the first charge upon our limited resources and thereby deferring important measures of reform and development. Any way, the limited Prohibition experimented with a number of Provinces; which has now been abandoned by the Provincial Governments owing to political reasons, was more a political protest than affirmation of a well-considered policy and should have no place in the national programme of the future. This being so, it is not necessary to deal with the proposals[1] for transferring a part of the excise revenue to the Local Authorities which

[1] This proposal has been made in different forms, but all of them aim at the transfer of a portion of the receipts on Spirituous liquors and intoxicating drugs to the local bodies. Mr. G.K. Gokhale in his evidence before the Decentralisation Commission advocated the assignment of a share of the excise revenue to the credit of local accounts, and in making this proposal was, no doubt influenced by the existence in England of the Assigned Revenue System inaugurated by Mr. Goschen in 1888*. The Bombay Local Self-Government Committee of 1915 also proposed that a two-anna share of the excise revenue be made over to a Local Taxation Account and distributed to the local bodies. The proposals for the transfer of a share of the excise revenue were also made when the Madras City Municipality Bill and the Madras District Municipalities Bill of 1919 were on the anvil, and a permissive provision empowering the Government to transfer a portion of the excise revenue to the Local Board was inserted in Schedule V of the Madras Local Boards Act, 1920. The Madras Financial Relations Committee also recommended the levy of a surcharge not exceeding one anna on the provincial rate for local purposes.

* "The Assigned Revenue System which was introduced by Lord (then Mr.) Goschen in England consisted in handing over to the local authorities the proceeds of certain taxes whatever they might amount to, Most of the direct Exchequer grants were at the same time withdrawn, and it was hoped that the expansive character of the grants so handed over would do away with the need for further grants of this kind and so render possible a complete severance of local from national finance."

(*Report of the Departmental Committee on Local Taxation*, 1914, para. 56).

have been put forward from time to time. The excise duties have a dual character. They are partly a tax on production of intoxicants and partly a tax on their sale. The two, for administrative purposes, are discreet and the tax on sale of intoxicants can be assigned to the Local Authorities and efficiently administered by them. But as now Excise has ceased to be merely a financial question and its future will be determined by wider considerations, the point may be taken to have ceased to have any bearing on local taxation.

LECTURE IV

LOCAL REVENUE—DIRECT TAXATION

Though the indirect local taxes have had to be discussed at some length in the preceding lecture, direct local taxes are, relatively speaking, more important in the system of Local Taxation of India, and their position has, therefore, to be carefully considered. These taxes are: The House Tax and its auxiliaries, which collectively can be called the Property Taxes, the Land Cesses, the Pilgrim Tax, and other Passengers' Taxes, and the personal taxes which are levied under different names by the various local bodies but are, to all intents, local income taxes assessed in a rough and ready manner. The Property Taxes are levied by Municipalities in all Provinces, and assessed on real estate. The House Tax levied by the Village Panchayats in Madras and Bombay is also a tax on property; but they are the only rural local authorities which levy the tax. The other rural local authorities depend upon the Land Cess for their tax receipts. The village authorities in several Provinces levy the tax called the Tax on persons assessed according to circumstances and property. It is not easy to tell whether it is a personal or property tax, but it is nevertheless not wrong, as will be argued a little later, to regard it as a local income tax. This tax is also levied by the smaller Municipalities in some Provinces. Besides this tax on persons, there are other local income taxes, like the Tax on professions and trades, the *haisiyat tax* and the Companies Tax, which are levied both by the urban and non-urban local bodies. The Pilgrims' Tax and the Terminal Taxes levied in Calcutta are Passengers' Taxes. Of these taxes the Property Taxes may first be considered.

The property Taxes comprise the House Tax and the

service rates like the Conservancy, Water, and Lighting Rates. The fact that the latter rates are called service rates raises the question as to whether they are to be regarded as taxes or public prices. The question will be considered in its proper place, but it is enough to say here that they are sometimes consolidated with the general tax for the purpose of assessment and collection and in some cases even for imposition, it is both convenient and right that they should be regarded as Property Taxes for the discussion of the various issues which we have to deal with here. They are, it may also be added, classed under taxation in all official reports and receipts from them are taken into account in calculating the average incidence of taxation in the different Provinces.

From the figures in the subjoined table[1] it will be

[1] *Receipts from the Property Taxes in the different Provinces in* 1929-30 and 1939-40.

	I *Total receipts from property Taxes*		II *Total Tax Revenue Rs. (lacs)*		*Percentage*	
	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40
Calcutta ..	179.83	179.34 (1934-35)		220.62 (1934-35)	79	
Bombay ..	230.05	299.23	284.46	343.56	80	
Madras ..	30.80	38.73 (34-35)	43.90	54.21 (34-35)	70	
Bengal ..	59.80	62.01	71.52	79.42	82	
Bombay ..	76.70	62.25	165.60	149.50	46	
Madras ..	33.24	67.58	70.08	123.94	47	
United Provinces ..	28.47	33.80	108.85	123.60	26	
Punjab ..	7.63	7.42	79.55	95.67	10	
Central Provinces ..	14.81	19.83	49.23	48.83	30	
Assam ..	5.56	5.98	7.16	8.64	78	
Bihar & Orissa	21.49	20.33 (Bihar) 2.76 (Orissa)	27.44	38.36 3.42 (Orissa)	77	

clear that though in the Provinces in which the indirect municipal taxes are not levied or are not important, the direct taxes are by far the most important source of the municipal tax-revenue, even in the Provinces in which the Municipalities rely upon the Octroi and Terminal Taxation for raising a large part of their tax-revenue, they are by no means negligible. Of these Provinces the Punjab is the only province in which only 10 p.c. of the tax-revenue is derived from the Property Taxes. In the United Provinces 26 p.c., in the Central Provinces 30 p.c., in the Bombay Presidency 46 p.c., and in Bombay City 80 p.c. of the municipal tax-revenue comes from the Property Taxes. In the Bombay Presidency as a whole (including Bombay City) we find that about 70 p.c. of the municipal tax-revenue of the Province is contributed by these taxes. In the remaining Provinces they are responsible for about 80 p.c. of the tax-revenue of the Municipalities. Owing to the special conditions prevailing in the Presidency Towns it would perhaps be somewhat misleading to base any general conclusion on the proportion of the revenue derived from the Property Taxes to the total revenue of all Municipalities, but even if we leave them out of account, we find of the total tax-revenue of the *Mufassil* Municipalities in India about 45 p.c. in 1929-30 and 54 p.c. in 1939-40 realised by the levy of the Property Taxes.* The obvious conclusion to which these figures point is, of course, that the direct taxes have not only an assured place in our system of local taxation, but also that the assumption that they are in any way not in keeping with our national traditions is not borne out by the facts.

There has not been any change of special significance in the underlying principles or methods of administration of these taxes ever since they were introduced in the early seventies. They were modelled on

*In Sindh the revenue derived from Property Taxes is negligible and in N. W. P. they are not levied.

the English local rates and even now they bear very strong similarity to them. The common basis of assessment almost in every Province is the annual value of lands and buildings which is generally defined as "gross annual rent at which they may be reasonably expected to be let from year to year". These are the very words which are found in the Parochial Assessment Act of 1836 which was the basis of the English Rating System until 1925 and have been re-enacted in the Rating and Valuation Act, 1925, which has now superseded the former. The words "reasonably be expected to be let" have in England been given a meaning which has made the annual value an abstraction and the actual rent paid by a tenant to a landlord is taken to be presumptive evidence of the annual value but not the annual value itself. The same conception of annual value being rent paid by a hypothetical tenant is also implicit in its definition in the Indian Municipal Acts, though generally the actual rent is accepted as a fair measure of the annual value of an assessable unit of property or "heridament" as it is called in England. Though generally the gross annual value is taken as the basis of assessment, in some cases other bases have also been provided for. In the Punjab, for example, in the more important hill stations it is permissible to assess land and buildings on the basis of ground area or length of frontage in streets or bazaars. In the Madras Acts also there is provision for a basis of assessment alternative to the annual value, and there are special provisions for the assessment of huts. In the United Provinces Municipal Act it is specifically laid down that the actual rent be made the basis of assessment of the Property Taxes. In the Bombay City Municipalities Acts of 1925 there is a provision for the assessment of these taxes on the basis of the capital value of land and buildings and in the Madras Village Panchayat Act there is provision for the capital value as the only basis for the assessment of the House-Tax in the villages. These are all interesting variations, but the basis which

is generally adopted for the assessment of the Property Taxes is, as stated above, the gross annual value of land and buildings.

For property which is ordinarily not let or, like colleges, schools, and hotels, cannot be let, there is a provision in most of the Acts[1] for assessing their annual value at a certain percentage of their cost of construction and the value of land with deductions for depreciation. For assessing Government buildings there are also special provisions in some of the Acts. In Bombay Government buildings are assessed by an officer appointed by the Government and liable to seven-eighths of the ordinary rate. In the Central Provinces the maximum rate at which they can be assessed is 7½ p.c. of their annual value and in Calcutta the value of the property of the Improvement Trust is taken as the cost of its acquisition, and there are also special provisions for the assessment of the Port Trust Property. The basis in all these cases is what, in England, is called the "contractor's estimate" and has to be adopted because the annual value cannot be ascertained in the ordinary way.

The Indian Property Taxes are, however, different from the English local rates inasmuch as in India the owner is generally primarily liable for the payment of the

[1] In such cases what is called 'Contractor's Test' is applied and 'reasonable expectation' is taken to mean 'interest on capital value or cost of land and buildings or interest on cost which a contractor would require if he provides the land and constructs the building for the present occupier.

The rate per cent allowed on ascertained value of land and cost of building varies. In the Madras Act (IV)-of 1919 prescribed is 6 p.c., in the Calcutta Municipal Act (III) of 1923, 5 p. c., in the City of Madras Municipal Act (IV), of 1919 6 p.c., in the Calcutta Municipal Act (III) of 1923, 5 p.c., in the City of Bombay Municipal Act (III) of 1888, 4 p.c., on the value of land 6 p. c., on the cost of building (Vide Kawshek) *Principle of Rating in England and India*, pp. 326-27.

general rate or the House Tax. In England it is the occupier who has to pay the rate. The service rates are paid by the occupier and when, as in Calcutta, these rates are consolidated with the general rate, the burden is shared by the owner and the occupier. The theory of the owners' liability in India has not been clearly formulated anywhere, but it makes these taxes on property in a sense in which the English local rates are not. In England, a rate is "a charge made in respect of occupation or ownership of property, but is not a charge upon property."[1] The annual value in England is, in the words of Rowe Fugo, "a rough guess at ability handed down from remote antiquity". But the fact that it is the occupier who pays the tax makes the annual value a rough guess of his ability based on his income and not that of the owner. The rent that he pays is taken to bear a certain proportion to his income and his possession or otherwise of property has bearing on the question only so far as it affects his income. But in India the general rate being a liability of the owner, it becomes a tax on him in respect of the ownership of his property. In India also, it is true, the criterion of his ability is not the value of his property but the income which he derives from it, and that is the reason why the owner is, in most Provinces, entitled to remission or refund of the tax in case his property remains vacant consecutively for at least a specified number of days in the year. But the significant fact in the assessment of the general rate is ownership and not occupation, and, therefore, in India the element of property is a more important element in the assessment of the tax than that of income.

In the case of the service rates, of course, the element of cost of service is the really relevant factor and the local authorities are required to determine their rates with the sole object of meeting the cost of rendering these

[1] *Manual of Rating* by S. C. R. Bosanquet and P. F. Smith, p. 20.

services. But both in England and in India the elements of cost and benefit are implicit in the actual working of the local rates. The fact that all property whether it is used for profit making or not is rateable, is due to the assumption that it benefits from local services and adds to their cost and ought, therefore, be called upon to make contributions to the local fund. That is the only theory on which the levy of these rates on Government property is justified and the institutions like colleges and hospitals can be held liable to them. The elements of cost and benefit are of special significance in local taxation; but on the whole, it may be postulated that ability as measured "rateable" occupation in England and rateable ownership in India is the criterion of tax-liability. Local rates are, it need not be specially stressed, taxes in every sense of the word and capacity to pay is and should be the basis of assessment. In India capacity to pay is measured by income arising from the ownership of real estate.

In some Provinces in the Acts the maxima are fixed for the levy of the Property Taxes and vary from 7½ to 12½ p.c., but even there the service rates can be levied and are not subject to these limits. In some cases, as for Calcutta, the maximum is laid down for the consolidated rate. In five out of eleven Provinces, however, the Acts do not limit the power of the Municipalities to raise the rates, and the absence of this limitation has not prejudicially affected the interests of the local tax-payer. The local bodies in India, as is well known, need a spur and not a curb so far as the levy of taxation is concerned and the fact that in a number of Provinces the law does not limit their rate-raising power is a negative advantage and it would be well to remove these limits in the Provinces in which they exist.

More important than the rates is the question of assessment. The valuation of property is a highly skilled job and requires on the part of the assessor a specialised training and experience of a high order. In

India most of the Municipalities are too poor to employ well-qualified and well-paid men for the purpose. In a few cases the work of valuation or re-valuation is done by the revenue officers lent by the Government. This practice of lending the services of a Government officer to the Municipalities for this work used to be more common in the early years of the introduction of local government, but has, as the Taxation Enquiry Committee pointed out, fallen into abeyance since then. Now in most of the Municipalities the work of assessment is done by a Committee consisting of the chairman and some members of the Municipal Board, and, it is not necessary to add, the work is not well done. Inefficiency in assessment is due to the Assessing Committee not having the necessary expert knowledge and experience and also to the fact that they cannot be expected to assess without fear or favour when they are dependent for their position upon the popular vote. Experience of all countries, but specially of the U.S.A., is conclusive against the desirability of having elected officers for the assessment of taxation. The students of taxation know that one of the main reasons of unequal assessment of the general property tax in the U.S.A., which has given rise to such perplexing problems, is the fact of the assessors owing their position to the success at the polls. The right sort of men do not get appointed on that account and do not discharge their duties with the requisite amount of independence. In India the problem is similar and as Mr. Goode said in his evidence before the Taxation Enquiry Committee, "No reform in local administration is more urgently necessary than to secure fearless, impartial, uniform assessment. There seems to be no prospect of this being done except by means of a Government agency performing this duty in independence of municipal commissioners", and "it may be stated with absolute definiteness", added Mr. Goode, "should be done by persons who are independent of

the suffrage of the persons whom they assess."[1] The assessing officers should be independent both of the Municipal Commissioners and the voters. In the Presidency Towns the assessment is done by well-trained officers and the valuation lists are authenticated by the executive officers. In Calcutta the Chief Executive Officer is now elected by the Corporation, and his job has become one of the prizes which the party in power gives away in recognition of loyal services. The independence of assessment in Calcutta is likely to be impaired on this account. In Bombay, and Madras the position is better in this respect as the executive officers are not dependent upon popular suffrage. But taking the country as a whole it may be stated that independence of officers responsible for assessment from any control on the part of the electorate, which is an essential condition of its efficiency, does not exist and has to be provided for.

The position is equally unsatisfactory in respect of appeals against assessments. In Bombay, and Calcutta appeal lies to the Small Cause Court and the High Court and in the United Provinces, the Punjab, and the Central Provinces to the District Officers or the Commissioner. In Madras the Standing Committee of Finance and Taxation is, in the first instance, authorised to grant relief, though there is appeal to the Small Cause Court and the High Court against its decisions. In all other cases the Municipal Councils or special committee of the Council hear and dispose of these appeals and their decision is final. The work done by the assessors, even when they are competent and independent, can easily be undone by members of the Municipal Councils intent on granting relief for catching votes. Popular suffrage is, it is now perfectly obvious from the experience of the working of democracy in every country, the worst method of appointing

[1] *The Taxation Enquiry Report Vol.* V, p. 504.

men to posts for which the highest qualities of efficiency and integrity are necessary. The performance of judicial functions by an elected body in regard to matters which affect the pockets of the electors is the most efficacious way of undermining its sense of duty and independence.

By common consent the tax on real estate is the most suitable form of local taxation. That is due to the fact that as its incidence is local and evasion extremely difficult, it can, given proper conditions, be levied with advantage by the Local Authorities. In India it occupies, as shown above, an important position in the system of local taxation and is likely to grow in importance with the passage of time. It is, therefore, necessary to ensure for it conditions under which it may be possible for it to give the best results of which it is capable. It is suggested that this end can be achieved by introducing four changes, each one of which is important and will have far-reaching effects on the system of assessment and administration of the tax.

Of these the first is that imposition of the Property Tax as the main source of local revenue should be made obligatory on all Municipalities. Several good reasons can be given in support of this suggestion. In view of the admitted need of enlarging the resources of the Municipalities it is necessary that every potential source of revenue should, within the limits set by the taxable capacity of the people, be fully developed. As it is necessary that both Octroi and the Terminal Tax should be repealed, and the Sales Tax substitution of which for both was suggested in the last Lecture, will be levied and administered by the Provincial Government and its yield, as will be suggested later in this chapter, allocated on some basis which will not discriminate in favour of the Municipalities, it will be necessary for the latter to have at their disposal a source of revenue, the rates and yield of which can be varied to suit the exigencies of local needs from time to time. The House Tax is

already being levied in all Provinces. It is, on the testimony of world-wide experience, most suitable local tax and can and ought to be developed in India.

But what about the inborn aversion of people in Northern and Western India to all direct taxes? What about the genius of our race? This phrase has done duty for seven decades in the discussions on Octroi and has acquired almost a prescriptive right not to be dislodged from that position. It has that familiar ring about it which has made it a stock phrase for the denunciation of all new and, therefore, odious imposts in all countries; for is there a tax the imposition of which was not, at the outset, denounced as a sin against the Holy Ghost[1]? So many new taxes have had to traverse the same course before being accepted as intrinsically sound or suitable fiscal expedients, that we will do well to leave the genius of the race out in our discussion of this question. Racial temperament is an important social fact, but owing to the difficulty of defining it, it can be made to fit in with all kinds of pre-conceived ideas and prejudices; and it will make for clearer thinking if we put our argument on a less elevated plane of expression.

That, of course, means that we should set forth our

[1] The Income-Tax, for example, has had to win its way to its position of fiscal eminence against a number of difficulties, but among them the smoke-screen set up by those who were adversely affected by its imposition, by marshalling all the arguments drawn from their assumed knowledge of national psychology was not the least serious. In 1860 when Wilson proposed the levy of the income-tax in India for the first time, we had our fiscal ethnologists who foretold all kinds of disasters because the income-tax, according to them, was repugnant to our racial mentality; and even after 1886 when it was given a permanent place in our tax system, it remained an unimportant source of revenue because of the same assumed antipathy of our people to all forms of direct taxation. The last War made it necessary for the Government to take a more realistic view of the situation and develop the income-tax to the fullest extent and now it does not hurt our racial susceptibilities.

objections to the levy of the Property Taxes by the Municipalities in all Provinces on more specific grounds. The statement that there is something in us, or in our social *ethos*, which makes it impossible to develop the direct local taxes further in the four Provinces, in which the indirect taxes are important, after all amounts to saying that their levy will be attended by friction which will put a very great, and in some cases intolerable, strain on the administration of those taxes; or, in other words, reluctance to pay them, which is inherent in all tax-payments, will almost amount to refusal to do so. But why should people in these four Provinces offer passive or active resistance not to the levy—because they are in force there already—but to the enhancement of these taxes? They are not in any respect that matters for fiscal purposes different from the people of the other Provinces which have been able to do without the Octroi and Terminal Taxes, or at least the differences, such as they are, have no bearing on their willingness or otherwise to pay the direct taxes.

It may be that Octroi has, to use another over-worked phrase, the sanction of ancient usage; but that is so in all Provinces, and it is a matter, comparatively speaking, of recent history that the town and transit duties were being collected all over India and specially so in the Provinces of Bengal, Bihar, and Orissa which have not been and are not levying Octroi[1]. It is not necessary

[1] In 1835 when Sir Charles Trevelyan submitted his Report, both Patna and Benares were levying the town duties. When Octroi was revived, it was levied in Benares but not in Patna; and since then the former has stuck to Octroi and even refused to replace it by the Terminal Tax, while in the latter the House Tax has been the main source of the municipal revenue since the inception of the municipal government in that town. Surely, the fact that Benares is and Patna is not levying Octroi has nothing to do with its being an old tax or any differences between the psychological reactions of the people to the levy of the direct taxes. In Benares the House Tax is also being levied and the basis and methods of assessment are practically the same as those which are being used in Patna. In

to say more on this point; and it may be concluded that there is nothing in the nature of things which makes it difficult or at least more difficult to levy the Property Taxes or develop them more fully in some parts of India than in others.

It may, however, be urged that the kernel of the argument is not that the people will not pay the direct local taxes, but that the yield from them will not be sufficient for municipal needs; and if Octroi and the Terminal Tax were abolished, the deficiency caused thereby could not be made up by the enhancement of the House Tax. There is force in this point. But it has to be borne in mind that it has not been suggested that the loss of revenue due to the abolition of Octroi and the Terminal Tax should be made up by compensatory increase in the yield from the House Tax. Our needs are so great and urgent that we cannot afford to lose any public revenue, and though the yield from the Sales Tax, the imposition of which has been suggested, cannot, it may be repeated, be forecast with any degree of confidence, it can be assumed that it will be large and the share, which the Municipalities, which now mainly rely upon Octroi or the Terminal Tax, will get from it, together with other

Sambalpur, a town in Orissa, to take another instance, Octroi is being levied while the other Municipalities of Orissa are levying the House Tax. This is due to the accident of Sambalpur having been a part not of Orissa but of the Central Provinces when Octroi was revived. Sambalpur has, even after its transfer to Orissa, been levying Octroi, and has the distinction of being the only Municipality in Orissa which is doing so. That again, it is needless to say, has nothing to do with the attitude of the people towards the direct taxation. The people in Sambalpur are like the people in the rest of Orissa, and they are not levying the House Tax because they have been permitted to levy Octroi. In Bombay, as has been shown already, the Property Taxes are more important than Octroi and the Terminal Tax, and of the people in that Province it cannot be said that the Octroi and Terminal Taxes have to be levied there because the people have very strong prejudice against the imposition of the direct taxes.

readjustments to be considered later, will add enough to their resources to enable them to carry out this measure of necessary financial reform. There is no doubt that the indirect taxes can everywhere be collected with much greater ease than the direct taxes and that accounts for their persistent popularity all over the world. If given choice between the local direct and indirect taxes, there is no question that people will choose the latter. This consideration applies to all the other Municipalities which are not levying the House Tax or are not making the most of it. It should not be left to them to levy or not to levy this Tax. The whole system of local taxation should be developed on the assumption that each Municipality will make the tax on real estate its principal source of revenue and make the most of it.

It has, however, to be conceded that though the imposition of this tax by all Municipalities or enhancement of its rate are feasible, it will take time before its full productivity can be realised. Taking the different Provinces and the average incidence of taxation in them[1], there does not seem to be any reason to suppose that the Provinces which are levying Octroi and the Terminal Tax are any better off than the Provinces which are not. The average incidence is about Rs. 4 per head in all Provinces except three. The incidence in Madras and Bihar and Orissa is low but that is due to the fact that there the level of taxation is low; and in Bombay it is the highest, i.e., more than Rs. 6 per head—because there both the direct and indirect taxes have been developed. There is, therefore, no reason to anticipate that there will be any eventual falling off in the receipts of the Municipalities owing to their relying mainly upon the development of the direct taxes for their revenue. But as remarked above, time will be needed to develop fully these taxes, and at the outset some decline in the receipts of the Munici-

[1] Vide Appendix XVII.

palities may well be expected. That is why it will be necessary to provide against the dislocation of municipal finances by the introduction of this change and also for special adjustment in the case of the individual Municipalities[1]. These and similar other matters will have to be carefully considered when the scheme is put into effect, but they do not affect the validity of the argument that the imposition of the statutory obligation on every Municipality to levy and develop the House Tax will not entail any undue hardship on the people or otherwise upset the social equilibrium.

This is, in a sense, one of the most important changes which can be made in the fiscal system of the Municipalities in India; but in view of the fact that the House Tax is already being levied by them very widely, it will not be the most radical. But the other three changes which are to be suggested here are not only important but also radical. The first is that the basis of assessment of the House Tax be changed from the annual value of lands and buildings to their capital value. This will be

[1] Taking the cases of Benares and Patna again for illustration we find that in 1833, when the Town Duty was being levied in both the towns, their receipts from it were Rs. 1.80 lacs and Rs. 2.5 lacs respectively. In 1939-40 their tax-revenue was Rs. 14.79 lacs and Rs. 6.16 lacs and their average incidence of taxation Rs. 6.6.7 and Rs. 3.5.4 respectively. Benares received Rs. 6.66 lacs from Octroi and imposed, as already stated, the House Tax, the yield from which amounted to Rs. 1.60 lacs. The receipts of Patna from the House Tax, including the Conservancy Rate, was Rs. 3.67 lacs. These figures are favourable to Benares as compared with Patna from the standpoint of receipts. The Benares Municipality is, as is well-known, not a model municipality for the Municipal Authorities and its resources are as inadequate as of any other city in India. If and when Benares has to give up its Octroi revenue, it will not find it easy to re-adjust its finances to the reformed system of local taxation. It will, of course, receive its share of assignments from the Provincial Government but its case and the similar cases of other Municipalities will make it necessary to make provision for what may be called the transitional benefits.

a radical change but also a simple one. The purpose of valuation will be to ascertain the capital value of property and not its income; and as its capital value is derived from the income that it yields or is capitalised income, the change will be not a change of substance but of form; and yet it will have its advantages which make its introduction highly desirable. The annual value is, as it is interpreted now, more or less an abstraction. It is rent by a hypothetical tenant to a hypothetical landlord. It is easy to make it more objective by making the actual rent and not the rent at which a building may "reasonably be expected to be let" the basis of assessment. In the United Provinces assessments of the House Tax are based on the actual rent. Even then in the case of buildings which are not or cannot be let, assessment has to be made on the basis of the assumed or inferred rental value.

But apart from that fact, the capital value is more objective than the rental value and can be assessed with greater precision. Personal equation can almost be eliminated in the assessment of the capital value; and as it is determined by what a particular piece of property yields in the present and is expected to yield in the future, it is a more correct estimate of its economic importance and, therefore, of the taxable capacity of its owner. That fact, of course, brings a speculative factor into the assessment; but as the speculative value is merged in the present value and does not impair the objectivity of the capital value, the presence of the speculative element is a merit and not a demerit of this system of assessment. There will be some cases like those of the public buildings in which the market value of the property will not be easy to obtain. In their case the estimated cost of construction will have to be, as it is now, made the basis of assessment. But in their case also the necessity of calculating their annual value on some conventional basis will not exist, and in the case of most of the buildings the objective fact of what the land and the house are worth in

the market will afford a good and definite basis of assessment.

This change will also be desirable owing to the fact that it will fit in with two or three other changes which have to be made in order to modernise our system of local taxation. The administration of the special assessments and the unearned increment value duties, the introduction of which, as important elements in the system of local finance, is suggested a little later, will become much easier when the whole basis of assessment is changed from the annual to the capital value. It is also desirable to make the capital value of land the basis of assessment in the rural areas. The reasons for making this change will also be given when the position of the Land Cesses is discussed a few paragraphs below. The assimilation of the bases of assessment in the rural and the urban areas will not only make for uniformity but also have administrative advantages which will enable the Valuation Department, the creation of which, will be necessary, to perform its duties with greater ease and efficiency.

By adopting capital value as the basis of assessment of our principal local taxes we will be exchanging the English for the American system of assessment. Our present system of assessment in the urban areas has been taken from England. There the system still holds its own and the proposals for changing it radically have never been seriously discussed in spite of the fact that the local rates have received a great deal of attention and some far-reaching changes have been made from time to time. But in England the discussion of the problems of local rates has turned on the question of their incidence and the need of giving relief to the rate-payer, as local tax-payer is called in England, at the expense of the general tax-payer. The existing basis of assessment was adopted in England in 1836, and in spite of the fact that its unsuitability has been demonstrated by the difficulties which have been experienced

in ascertaining the annual value of all kinds of "heridaments", like advertising stations, brick-fields, canals, public utility undertakings, parks, woodlands, mines, and railways, the basis, with numerous modifications, is still in operation; and it is likely that it will not be materially changed for a long time to come. As Since 1929 the agricultural land has been completely relieved of the local rates and the industrial and transport enterprises have been exempted from three-fourths of the burden, local rates have become more like the taxes on residential and commercial buildings than the general taxes on real estate. That will make it easier to work the annual rate system of valuation and probably give it an indefinite lease of life.

In America, on the other hand, capital value was adopted very early as the basis of assessment of the general property tax, and though the breakdown of the general property tax itself has been an established fact for a long time, that is not due to the fact that the capital value has been and is the basis of its assessment. America has been a laboratory of many fiscal experiments, but the lessons that other countries can learn from its experience are more or less negative in character, that is, America, in the domain of finance and taxation, has to teach the world how not to do things and not how to do them. That is so; but in spite of it capital value is a sound basis of assessment and ought to be adopted in India. In Canada until 1866 the annual value was used on the basis of assessment. In that year in Upper Canada the capital value basis was adopted for the first time and since then it has replaced the annual value basis almost in every part of Canada[1]. In Australia, New South Wales, and Queensland have also adopted the capital value basis and are finding it satisfactory.[2] This basis has had a long trial and in the coun-

[1] *Provincial and Local Taxation in Canada.* 1 Vineberg p. 91.

[2] *The Australian Year Book* 1930.

tries in which it has been used, it has been found to work well. India in adopting it will not, therefore, be experimenting in a new field or embarking upon a risky venture in the realm of taxation. It is a well-tried device of tax-administration and its value is not problematical in any sense of the word.

In adopting the capital value basis and retaining the liability of the owner for the payment of the local tax, we will be making the tax more definitely a tax on property. The object will, of course, be to measure very roughly the capacity to pay of the owner, but the assessment of the value of property will have to be as impersonal as possible. For that it will be necessary to establish units of measurements and comparison. It will be convenient and, for some purposes, necessary to assess the value of the land separately from that of the buildings. The value of land depends upon its access to streets, railways, water-fronts, and parks; and in the U.S.A., therefore, the unit of measurement generally used is based on frontage and depth, i.e., it is a foot-front of standard depth. The fact that the value of land decreases as it recedes from the frontage is allowed for by adopting a rule by which the unit value decreases in ever diminishing degree as the distance from the street increases in New York, for example, the first quarter is taken to have 40 p.c. of the total value, the second 30 p.c., the third 20 p.c., and the fourth 10 p.c.[1] The measurement of the value of buildings has to be a more elaborate process. In their appraisal the two factors of the cost of construction and depreciation will have to be taken into account and checked with reference to the data of sales of property. They will have to be classified and the value units will have to be established also in their case. The mechanics of the system will require the maintenance of land value maps and records containing data likely to be useful in the work of assessment. The object

[1] *Land Value Maps*, New York, 1931.

must be to work out basic units of measurements which may be capable of being used with a fair degree of mechanical precision to make the system as impersonal as possible.

The success of this, as of any, system of assessment will depend upon the efficiency of the agency employed for the work. The assessor must be well trained, and be, as already stated, completely independent of those whom he assesses. For that purpose local agency under the control of the local bodies will be found inadequate. The opinion of Mr. Goode of Bengal on this point has been quoted already. Mr. Boag of Madras expressed a similar opinion in his evidence before the Taxation Enquiry Committee. "In my experience", he said, "I have found that independence of officers responsible for assessment from any control on the part of the electorate is absolutely essential".[1] It has already been stated that the independence of the assessor is an essential condition of efficient assessment not because of any circumstances peculiar to India. It is so in the nature of things; and America is trying, by having larger assessment areas and assessor and tax-commissions independent of the local electorate, to undo the incalculable mischief which has been done by the system of local assessment by elected assessors. The different States have achieved varying measures of success in the task of fiscal rehabilitation; but the degree of their success has depended upon and been measured by the extent to which they have made the assessing agency independent of popular suffrage. One of the most important lessons which America has to teach the world is that the efficiency of assessment is incompatible with local control of the assessor. We have, therefore, to entrust the work of assessment to an agency which can discharge its duties with an assurance that it will not thereby offend its own masters.

This agency must be an agency appointed and con-

[1] *The Taxation Enquiry Committee*, Vol. VIII, p. 148.

trolled by the Government if it is to be assumed that local agency will not answer the needs of the case. Apart from the unwholesome effect of the dependence of the assessor upon popular vote, there is another reason why it is desirable that the assessment of real estate should be centralised. The local bodies are, on account of their limited resources, not in a position to afford the cost of employing staff who can bring the necessary training and experience to bear on the performance of their duties. That is true of almost all the local bodies with the exception of a few very large ones. The work of assessment has, in most cases, to be done by a Committee of the Municipal Board because it is out of the question for it to employ trained assessors. It will be possible to combine both efficiency and independence if each province has its Valuation Department[1] whose duty it should be to appraise the capital value of real estate in all urban and also, as will be suggested below, rural areas. This Department will probably be a section of the Revenue Department of the Province and will be able to carry out the work of valuation for all local bodies in rotation. The difficulty of keeping the assessments up-to-date, which is experienced all over the world, can be got over by providing that property should be revalued periodically, say every five years. At present there is provision

[1] The Departmental Committee on Local Taxation of 1914 recommended the creation of the Land Valuation Office for central valuation for rating purpose on a uniform basis throughout England and Wales. They made this recommendation to strengthen the expert element in the work of assessment and remove anomalies and inequalities which existed and still exist in the valuation of rateable properties (Vide *Report of the Departmental Committee on Local Taxation*, para. 233.) This recommendation of theirs was not accepted, but under the Act of 1925 has been constituted Central Valuation Committee which performs advisory functions and makes recommendations for the removal of anomalies in assessment. It is not unlikely that the Central Advisory Committee will, in due course, be able not only to point out the existing of anomalies but take steps to remove them.

in some of the Acts for the revaluation of property at specified intervals. The period varies from four to six years. But in some Provinces the compulsory re-assessment has not been provided for. If all Provinces insist on re-assessment every five years and have a well-staffed Department for doing the work, the cost will not be unduly heavy because it will be possible to realise the economies of large-scale operations, and it will be possible to draw up a scheduled programme according to which the revision of the valuations of all the local bodies will take place periodically.

Mr. Goode, while suggesting that the assessing agency should be a Government agency, implied that though it would have to be appointed and controlled by the Government, the cost of maintaining it would have to be apportioned among the local bodies. The question of payment from the local or the provincial funds is not a question of principle but of expediency. But it would simplify matters if we accept the view that the work of assessment is, owing to conditions inherent in the nature of the work, more appropriately a function of the Provincial Government than of the local authorities. Our whole conception of local self-government should rest on the assumption that the connection between the Provincial Government and the local bodies is organic, and whatever functions one discharges for the other, are functions of the organised life of the community as a whole. It is necessary to have the local accounts distinct from the provincial accounts; but that does not mean that the functions like the administrative supervision of the local bodies, the audit of local accounts, and the assessment of property for the local bodies—functions, for which the provincial agency is more suitable—should be a charge on the local funds.[1] Once, of course, the

[1] Until 1912 the cost of the establishment in the offices of the Commissioners and the District Officers maintained for supervisory work over the local bodies was debited to the local accounts. The

allocation of functions and resources has been made, the essentials of good account-keeping require that the charges should be debited to the authority by and for whom they are incurred; but the allocation of functions itself has to be made on the basis of convenience and efficiency, and it is simpler and more appropriate that each authority should pay for the functions for which it, in the interest of the entire economy of social life, has been made responsible.

From the same point of view it ought to be clear that the fact that the work of assessment will be taken out of the hands of the local bodies will not impair their autonomy in matters which are really vital and which will give them all the scope that they would require for local initiative and enterprise. The fact that an expert agency for the valuation of local property will be provided by the Provincial Government will not curtail the control of the local bodies over their revenue and expenditure and they will otherwise be free, within the provisions of the law, to initiate and develop any policies they like. The assessment of property by an expert agency will add to their resources by removing the cause of unequal and under-assessments, which are very common now, and relieve them of the odium of a task which is as thankless as it is important. The creation of a Provincial Valuation Department is a measure of financial reform which will help and not hinder the growth of local self-government in India.

The adoption of the capital value basis and the centralisation of the valuation of property will increase the resources of the local bodies by introducing changes which will improve the administration of the real estates tax. But the change which is proposed now will increase

Decentralisation Commission* pointed out that that was an unnecessary complication and not a fair charge on the limited resources of the local bodies.

* *The Decentralisation Commission Report* Vol. I, para. 833.

their resources by changing the incidence of the tax. This change, like the other two, is also simple but radical. It is suggested that the owners of property be taxed on a progressive and not a proportional basis. The principle of progression is neither applied to the local rates in England[1] nor to the general property tax, which is, for all practical purposes, a real estates tax, in America; and it is also practically unknown in other countries in the field of local taxation. But the reasons which account for and justify the use of graduation in the case of the income and inheritance taxes also hold good in that of the local taxes. Local taxes are levied not because property is benefited by the civic services and its capital or annual value is a measure of the benefit derived, but because these bases are a measure of the capacity to pay. The benefits of most of the local expenditure are as indivisible as those of the expenditure incurred by the superior authorities. The benefits of the expenditure on lighting, roads, and general conservancy cannot be measured as between the individual tax-payers, as the benefits of the expenditure on national defence, police, and education cannot be measured as between the different localities and the individual tax-payer. The criterion of liability for taxation in both cases is ability to pay and not any *quid pro quo*. And as the ability to pay, as every one admits, increases progressively and not proportionately with the increase of resources, there is no reason why progressive taxation should

[1] Dr. Cannan was in favour of the assessment of progressive local rates. In the latest edition of his "History of Local Rates," he wrote "Their (of people who live in houses of the higher values) incomes are larger in proportion to their house rent than those of the poorer classes, and they can therefore afford these amenities (good roads, etc.) and it would be economical and harmonise interests if they paid for them in a proportion higher than the difference of rent."

E. Cannan, *History of Local Rates in England.* Seventh Edition, p. 196.

not be levied by the local bodies.

In India where the burden of taxation falls with such severity on the poorest classes, the presumption in favour of progressive taxation, whenever and wherever, it is practicable, is very strong indeed. The imposition of the sales tax for the benefit of the local bodies all over India will increase the burden of taxation on the poorest classes still further, and will afford another reason why, from the standpoint of equality of sacrifice, if for no other consideration, the property tax should be levied on the principle of progression in taxation, i.e., the rate of the tax should be increased as the value of the property increases. In the beginning it will be necessary to proceed cautiously and make the scale of graduation not very steep. In theory everything is to be said for progression. The adoption of the capital value basis will not in any way affect the issue because progressive taxation is as legitimate in the case of a tax on capital, e.g., the inheritance tax, as it is on that of a tax on income. In practice there will be need for preliminary caution; but the only practical difficulty which can be anticipated is the unwillingness of the rich to tax themselves. The pressure of events and the growing strength of the forces, that are already at work, will remove or at least decrease that difficulty in course of time.

There are two more points with regard to the property taxes which have to be considered before we pass on to the discussion of the Land Cesses. The plural number has had to be used because though the same basis of assessment is used in all cases, ostensibly a number of taxes are levied by the Municipal Council and each tax is supposed to have a separate purpose of its own for which its proceeds are intended to be used. The general rate, for which the name House Tax has been used in these pages, is levied to meet the expenditure, the benefits of which are general and unallocable. But the other rates, the Water, the Conservancy, the Lighting and, in some towns, the Fire Rates—are levied with a view to meet the

expenditure on the services concerned; and in most of the Acts there is a provision that in fixing their rates the local authorities should aim at realising income enough and just enough to cover the expenditure on the services in question. The assumption, of course, is that these rates—the service rates—are prices for the benefits accruing from these services and have to be charged on the cost of service basis. That is, the local body should recover the cost from those for whose benefit the service is provided, and as the cost for each individual or building cannot be separately calculated, the annual value of the property is to be taken as a rough index of the benefit received and made the basis of assessment of the rates. On the same assumption the owners have to pay the general rate and the occupiers the service rate. That is so in most of the Municipalities, though in a few cases in which the rates are consolidated, some other basis of apportionment is adopted. In Calcutta, for example, a consolidated rate is imposed by the Corporation, and its burden has to be equally shared by the owners and the occupiers.

The existing arrangement is unsatisfactory and has to be changed, and that for two reasons. In the first place though in theory the income from these rates and the expenditure on the corresponding services are supposed to be equal to each other, in practice this equivalence is not even roughly achieved. It can, of course, not be expected that the two sides of the account should square up with any degree of precision, but it appears that in actual practice even the pretence of balancing them is not kept up. The figures of income and expenditure, so far as they are available from the published reports, are given in the footnote[1]. The yield from the Water Rate is not given in the table, because the question of water-supply and water charges is a case by itself, and will be dealt with in the next chapter. But it is clear from these figures that the divergence between the theory and the practice of these rates is so wide as to make

the former practically worthless as the working basis of the existing arrangements.

But the more important reason why the theory of treating these municipal activities as beneficial services, for which specific payments ought to be made, has to be abandoned is that these services are municipal functions which are of general importance in the widest sense of

[1] *Municipal Income from the Lighting and Conservancy Rates and Expenditure on Lighting and Conservancy in the different Provinces in* 1929-30 *and* 1939-40

	INCOME				EXPENDITURE			
	Lighting Rs. (lacs)		*Conservancy* Rs. (lacs)		*Lighting* Rs. (lacs)		*Conservancy* Rs. (lacs)	
	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40
Bengal ..	3.46	2.22	18.88	18.90	7.27	8.13	25.14	24.68
Bombay..	1.66	..	7.98	..	15.44	..	33.83	24.68
Madras ..	1.01	3.24	..	9.29	1.38	4.63	33.83	21.69
U. P. ..	..	..	1.24	1.15	26.06	19.61	15.16	29.40
Punjab ..	..	..	·14	1.82	10.91	..	18.00	17.43
C. P. ..	..	..	5.88	..	4.06	1.17	12.54	
Assam ..	·20	.55	1.90	2.55	..	..	2.93	3.32
Bihar & Orissa		..	7.21	7.65	2.37	2.78	11.37	14.60
Orissa ..	..	..	..	1.54	..	.56	..	1.89
Sindh ..	..	·21	..	·85	..	2.90	..	4.94

It will be seen that most of the Provinces already treat lighting as a general service and even most of the expenditure on conservancy is charged to the general revenues. The amalgamation of the service rates with the general rates will therefore, not be a radical change and will have the advantage of simplifying accounts.

the word and any attempt to treat them as services to be charged for on the benefit basis is not only likely to prove futile in practice but is also wrong in principle. Water supply is a service with regard to which the 'benefit' theory has a certain amount of relevance. Private scavanging is also a service which, if it is undertaken by a public authority, ought to be charged for specifically. But conservancy, lighting, drainage, and fire-extinction are general services and ought to be a charge on the general revenues of the local bodies. The services should be rendered to all sections of the public, and adequate provision made for the purpose. But if unfortunately owing to the limited resources of the local bodies some order of precedence has to be laid down, it should be determined by the scale of needs and not that of payments. If the soundness of this argument is conceded, the conclusion, of course, follows that the practice of differentiating between the general and the service rates should be given up and in its place the practice of levying a consolidated rate made universal. In cases like water-supply and private scavenging,[1] there should be some well-defined relation between the benefit received and the amount charged, but there the present illogical and confusing practice of calling them taxes and working out the average incidence of taxation on the assumption that they as taxes should be definitely abandoned.

This change will increase the tax burden of the owners and give relief to the occupiers. If the view that the services referred to above are of vital importance for the general good of the community and the incidence of local taxation can be equitably placed on the shoulder of the owners are correct, this change can be regarded as a step in the right direction. But in each

[1] In some Provinces special charge is levied for private scavenging, but is assessed according to the annual value of houses. This charge ought to be assessed on 'benefit' basis and a separate account maintained of receipts and expenditure.

case the questions must be decided on its own merits, and it may be necessary to provide for the apportionment of the consolidated rate between the owners and the occupiers. The proportion of half and half adopted in Calcutta on the basis of apportionment of the tax burden is unduly favourable to the owners; but it can be conceded that it is possible to make out a case against throwing the whole burden of the consolidated rate on the owners. The occupiers may, therefore, in some cases, be rightly required to bear a part of the burden. But it has to be remembered that it has to be the smaller part and the general assumption should be that any discrimination in favour of the owners is not justified by the circumstances of the case.

The other point which has to be dealt with briefly before passing on to the discussion of the Land Cess problems is the need of making satisfactory arrangement for appeals against assessments. It has been shown that the existing arrangements are unsatisfactory. The considerations which suggest the need of making the assessors independent both of the voters and the Municipal Councils are also relevant in this case. The Appellate Authority should be even more independent than the Valuation Department because its functions will necessarily be judicial and call for a high order of integrity and ability. It will be necessary to have a Provincial Appeal Tribunal[1] which will be a

[1] The Departmental Committee on Local Taxation of England also recommended in 1914 that a special Appellate Tribunal should be constituted and hear appeals against the decisions of the Local Assessment Committee to whom the appeal was to be made, in the first instance, against the assessment of the Valuation Office. The Committee expected a single Tribunal of this kind would produce a body of decisions consistent with one another and likely to form a guide to appellants. In India if each Province is divided into convenient appeal areas and one or two members of the local bodies concerned are, as suggested in the text, co-opted by it, it could be possible to get an Appellate Authority with the requisite amount of ability and independence.

circuit court and have plenty of work because it will have jurisdiction over the whole range of local taxation. It will hold its sessions at convenient centres; and it may be desirable for it to co-opt one or two members of the local body concerned, as assessors to have the benefit of their local knowledge and experience. But the Tribunal ought to be completely free from any taint of local politics and carry out its duties with the detachment and dignity of a judicial authority.

The Land Cesses[1] are and have been the mainstay of local finance in the rural areas. There has not been any change in the principle or methods of their assessments ever since they were imposed, and though the limits, up to which their rates can be enhanced, have been

[1] *Receipts from the Land Cesses and the Total Tax Revenue of the District and Local Boards in* 1929-30

	Land Cesses Rs. (lacs)		*Total Tax Revenue* Rs. (lacs)		*Percentage*	
	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40
Bengal ..	79.97	74.55	89.37	75.88	89	98
Bombay ..	51.90	35.30	65.60	37.13	77	95
Madras ..	93.97	109.47	141.24	164.39	65	67
U. P. ..	73.82	73.58	91.12	79.46	81	92
Punjab ..	59.50	56.86	66.34	65.64	93	87
C. P. ..	17.80	22.82	29.37	28.22	60	80
Assam ..	11.60	12.49	13.12	13.27	88	94
Bihar & ..	72.69	70.85	79.18	73.27	90	97
Orissa ..	..	5.95	..	6.03	..	99
Sindh ..	..	14.39	..	15.67	..	93
N. W. P. ..	..	2.15	..	2.56	..	84
Total ..	466.25	478.38	575.34	601.72	81	79

The percentage of the total land-cess revenue (Rs. 466.25 lacs) to the total tax revenue (Rs. 575.34 lacs) in 1929-30 was 81 and in 1939-40 total land-cess (Rs. 478.38 lacs) to the total tax revenue (Rs. 601.72) was 79. In 1895-96 the total land-cess revenue was Rs.170.83 lacs, in 1909-10, Rs. 215.86 lacs and in 1920-21 Rs.342.30 lacs.

raised in some Provinces since 1919, additional taxation has been levied only in a very few cases. The basis of assessment is either annual value or land revenue. In Bengal, Bihar, and Orissa, the permanently settled districts of Madras the Land Cess is assessed on the annual value, and the annual value is taken to mean the rent paid by the tenant to the landlord. In the Punjab and the United Provinces the basis is also the annual value, but the annual value is defined as double the land revenue. In the temporarily settled districts of Madras, Bombay, the Central Provinces, and Assam, the Cess is levied on the land revenue. In the permanently settled districts of the United Provinces the Cess is levied at the rate of -.2.6. per acre of the cultivated area and in those of Assam it is assessed on the annual value which is assumed to be Rs.2 per acre. In the United Provinces besides the acreage rate, on the permanently settled lands a road cess of one anna in the rupee is levied on the land-revenue.

In the temporarily settled Provinces the reassessment of the cesses takes place with the reassessment of the land revenue and as the latter is, as a rule, fixed for thirty to forty years, the yield from the cesses increases very little during the settlement period and inelasticity, which is such a marked feature of the land-revenue system in India, also gives rigidity to the system of local taxation in the rural districts. In the permanently settled areas special surveys are necessary to ascertain the rental value of the land, and as they are costly, the assessments have the tendency to become out-of-date. But rigidity is not the only disadvantage from which the system of local taxation suffers on account of its close association with the land-revenue system. For the convenience of administration and the economy of cost which result from the fact that the Land Cesses are assessed, administered, and collected by the revenue officer of the Government, the local bodies have to put up with all the anomalies of the archaic system of land

taxation in India. It is not possible to set forth in detail here the contradictions and inconsistencies which are inherent in the land-revenue system and its working. It has been shown elsewhere[1] that, in spite of the cadastral records and elaborate statistical investigation the system is lacking in precision and objectivity and that the subjective factors have a free play in its working. The result is injustice in taxation, because not only is the incidence of taxation heavy and regressive, but it cannot be ascertained with any degree of precision and varies not only from province to province, but also from district to district in the same province and in some cases even in the different parts of the same district. The Land Cesses, outside the provinces of Bengal, Bihar, and Orissa and the permanently settled districts are either assessed on the land-revenue or the annual value is defined as double the land-revenue. That, of course, means all the inequities of the land-revenue system are also reflected in the Land Cesses and are accentuated because the same basis of assessment is adopted both for them and the land-revenue. In the permanently settled areas there is greater uniformity of incidence as the assessments are based on the rental value[1], but the valuations are, as remarked above, out of date and the incidence of the burden is, for reasons given below, particularly heavy on the cultivators. This tax is, therefore, inelastic and inequitable, and inflicts hardships on those who are not in a position to protect themselves.

The Land Cesses have to be paid by the landlords or the superior proprietors who are responsible for the payment of the land-revenue. But in some Provinces the landlords can recover a part of the amount due from them from the tenants. In the United Provinces, for example, the landlords can, if the rate is raised above 5 p.c., recover three-fifths of the excess from the tenants. In the Central Provinces one-third

[1] Vide Gyanchand *Some Aspects of Fiscal Reconstruction in India.* Chapter III.

of the Cess levied in excess of one anna in the rupee is recoverable from the tenants, and in Bengal, Bihar, and Orissa and the permanently settled districts of Madras the cultivating tenant has to pay half the Cess, the other half being paid by the proprietor. There is evidence in support of the view that the tenants are not only paying the share which, under the law, is recoverable from them, but more. It is not possible to say to what extent they are thus mulcted, but in practice the legal proportion is ignored and the actual payment which the tenant has to make to the landlord is settled by bargaining.[1] The tenant, it is needless to add, has, owing to the odds being against him, often to be content with terms which are not only unfavourable but the implications of which are not fully known to him. The tenant in India is no match for the landlord when they have to engage in a contest, the issue of which depends upon what is called the free play of economic forces.

The rates of the Cess vary from Province to Province. The rate which is commonly levied is 6¼ p.c. or one anna in the rupee, but the actual incidence of the rate varies with the basis on which it is assessed. Six

[1] Mr. Goode, in his evidence before the Taxation Enquiry Committee, made the following statement with regard to the recovery of the Land Cess from the tenants:—

"The landlords and the tenants do not take any notice of the Cess Act and the amount which the landlord recovers from the tenant varies from nil to something greater than the actual cess." (*The Indian Taxation Enquiry Committee Report,* Vol. V, p. 508). But it is more likely that more often the amount recovered by the landlord is nearly, or greater than, the actual cess, than it is less than half the total amount. Mr. Jack, in his "The Economic Life of a Bengal District," says that, though it is intended that the landlord and the tenant should share half and half the burden of the Local Cess, "in actual practice, however, the landlords habitually collect the whole tax from the cultivator, not only the amount which he ought to pay, but also the amount which they ought to pay; and they very often collect more than this amount and make a profit on the transaction." (J. C. Jack. *The Economic Life of a Bengal District,* p. 130).

and one over four p.c. on the annual value in the Punjab, for example, is at least really 12½ p.c. and probably more on the land-revenue which is double the rate generally levied in Bombay, Madras, the Central Provinces, and Assam. In the United Provinces the Land Cess is levied at 5 p.c. on the annual value which, as in the Punjab, is assumed to be double the land revenue. In Bihar, and Orissa and Bengal the rate levied is 6¼ p.c. but as it is assessed on the rental value, in the real incidence of the Cess, even though the rate is the same as in the Punjab, is much heavier in the provinces of Bengal, Bihar, and Orissa. But in view of the diversity in the incidence of the land-revenue itself, it is impossible to say what is the extent of the diversity in the incidence of the Cess even when the rates are the same. Both in Madras and Bombay, for example, the Cess is levied at 6¼ p.c. and the basis of assessment is the land-revenue, but that does not mean that the incidence of the Cess is the same in the two Provinces. That the incidence is different in these cases can be posited with positive certainty, but the extent of the difference is incalculable owing to the impossibility of ascertaining the real incidence of the land-revenue. In view of these facts it is necessary to guard against being misled by rates which, though nominally the same, are essentially different and which, when different from each other, do not fully reveal the extent of their difference on account of the different rates at which their face value has to be discounted to get at their real value.

The whole position is extremely confusing. But the fact which is its outstanding feature is the inelasticity of what is the sheet-anchor of local finance in the rural areas. This inelasticity is partly due to the system of assessment, and administration of the Land Cess, and partly to the heavy incidence of taxation on the agricultural classes. The latter cause can only be removed by making radical changes in the whole system of land taxation in India with a view to reduce its incidence and introduce

into its operation considerations which will take into account and make allowance for the differences in the taxable capacity of the revenue payers. This is a reform which cannot be introduced because of the fact that the land-revenue system, on account of its antiquity and dominant position in the whole rural economy, cannot be completely overhauled and modernized.[1] It is illogical and inequitable, and there is no consistency in it, whether internal or with reference to its place in the entire fiscal system of the country. Changes in the systems of land revenue are inevitable but it is not unlikely that the introduction of radical changes in them will take time owing to the antiquity of the tax and its importance[1] in the system of provincial finance. The same consideration, however, does not apply to the Land Cesses. They, though they are assessed and administered by the land-revenue authorities and are otherwise intimately related to the land-revenue itself, are not an integral part of the system. As surtaxes their distinction of purpose and allocation lies on the surface; and though they have been levied for over seven decades, and some of them are older, they, compared to the land-revenue, are new taxes and the people know that there is nothing hoary or ancient about them. It is, therefore, possible to make changes in the system of assessment of the Land Cesses which may be too drastic for the Indian system of land-taxation as a whole.

It is suggested that the assessment of the Land Cess should be completely separated from that of the land-revenue and placed on the capital value basis. This change will get rid of the contradictions and confusion of the existing system, provide a basis which will be simple, intelligible, and easy to administer and make for order and symmetry in the working of the system of local taxation in India. The reasons urged in favour

[1] For a fuller treatment of the subject see Gyanchand, *Some Aspects of Fiscal Reconstruction in India*. Chapter III.

of introducing a similar change in the assessment of the Property Taxes in the urban areas also hold good in this case, and to them are to be added two or three others which make the case for the introduction of this change in the rural areas even stronger. The divorce between the land cesses and the land-revenue system will emancipate them from those complicating factors which now make both so very anomalous and bewildering in their working and incidence. The adoption of the capital value base for the assessment of the local taxes will, of course, facilitate the introduction of the necessary degree of differentiation in land taxation and probably pave the way for the introduction of more thorough-going changes in the land-revenue system itself. The fact that the land-revenue department has already at its disposal data, in the form of the cadastral records and land maps, will make it easier to administer the capital value tax in the rural than in the urban areas, for which, of course, similar documents will have to be prepared. For all these reasons it is, therefore, highly desirable that the local tax on land in rural areas should also be assessed on its capital value. Land has become a marketable commodity. Its selling value is a matter of fact and not of opinion. The rates of the Land Cesses will have a definite relation to economic facts and will not signify different things in different cases, and the existing uncertainty regarding the incidence of the tax will be removed because the adoption of this base will make for uniformity and render it easier to apply and develop any policy which may commend itself to our judgment.

The existing difficulties which arise on account of the Cess being shared between the landlords and the tenants will solve themselves if we adopt the capital value basis. The tax on the capital value of a negotiable, transferable right in the ownership or use of land, will be paid by those who possess that right. The landlords, 'the possessors of proprietary rights', to use a queer phrase of the Taxa-

tion Enquiry Committee, the sub-proprietors of all grades, the statutory tenants, the fixed rent tenants, the fixed tenure tenants, the occupancy tenants and the non-occupancy tenants who are not tenants-at-will—in short every one, who has interest in land which can be sold or mortgaged, will have the value of his right fixed by forces at work in the market and can and ought to be taxed. The particulars of their rights are now shown on the record of rights which is maintained by the Revenue Department, and every transfer of right has to be intimated to it. With the help of the information which the Registration Department can give, it will be easy to assess the capital value of these rights and locate their owners. We will, thereby, get not only a simple basis of assessment but simplify the administration of the tax and tax everyone who is living by land—whether as a rentier or as a tiller of the soil.

Inelasticity of the Land Cess will, to the extent to which it is due to their being tied to the land-revenue system, be considerably reduced, if not removed altogether, when this knot is cut. By comparing the value of the property which comes on the market in a particular year, with that of the property which does not, it will be possible to work out a unit of value which will have direct relation to the facts; and as it will be possible to revise assessments at shorter intervals, let us say again, every five years, the rise in value will be more faithfully reflected in the rise of revenue. It will be possible to introduce progression in the scale of rates and tax the rich at higher rates. Our whole system of land taxation is impersonal and makes our taxation as a whole even more regressive than it would otherwise be. We cannot, as it is, make it progressive; but by levying a differential tax on the landlords and introducing graduation into local taxation, we can make it less regressive. Local taxation ought to be progressive; and if we levy the Land Cess on a graduated scale, we will be introducing a measure of reform which will be in the interest of fiscal

equity and increase the income of the local bodies. There is no room for progression in the present framework of the land revenue system. But the assessment of the Land Cesses on the capital value basis is definitely suggested to change the framework of land taxation and introduce elements which will make it flexible and expansive.

The administration of the tax will be in the hands of the Valuation Department. It would be economical to have the same agency for the assessment of the urban and rural local taxes. Even now the District Boards have nothing to do with the assessment, administration, and collection of the Land Cess. They only fix the rates and receive the income. Their position will, therefore, not be changed by the establishment of the Valuation Department. The assessment and collection of the Land Cess compares very favourably with the assessment and collection of the municipal taxes. The case would be the reverse if the District Boards did their own assessment and collection of the Cesses. The alternative course is, as a matter of fact, not open because the very fact that the Land Cesses are surtaxes on the land-revenue makes the centralization of their administration inevitable. With the adoption of the capital value basis that condition will cease to exist, but even then it will be necessary for the Valuation Department to work in close co-operation with the Revenue Department, and there will be a district advantage in making the former as a branch of the latter. The land-maps and the record of rights will be even more necessary for the assessment of capital value than they are for that of annual value. The Valuation Department will practically do exactly the same work as the Revenue Department is doing now with this difference that they will have to calculate a unit of valuation and use it for ascertaining the capital value of land. The unit of valuation of the urban property will have to be worked out on a basis different from that of the agricultural land and the present revenue experience and training of the officers will have to be supplemented by learning the new technique. But a Valuation

Department for the whole Province for the assessment of the Property Tax in the rural and the urban areas ought to be able to do its work efficiently, and whatever increase in the cost of administration there may be, will certainly be worth while because it will pay for itself several times over.

Personal local taxes are not equally important in every Province, but taken as a whole they are an important element in the local finance of the country and are capable of being further developed. These taxes are either, in effect, the local income taxes or the Passengers taxes. The table given in the footnote[1] gives the yield from these

[1] *Local Income Taxes Receipts in the Different Provinces in* 1929-30 *and* 1939-40

	Profession Tax Rs. (lacs)		*Hasyat Tax* Rs. (lacs)		*Tax on Persons* Rs. (lacs)	
	29-30	39-40	29-30	39-40	29-30	39-40
Calcutta	21.23	16.76	..	..	..	..
Madras	6.25	3.35	..	..	..	..
Bengal						
(Municipalities)	1.19	2.15	..	..	4.30	·14
Bombay						
(Municipalities)	·64	·71	..	..	..	..
Madras						
(Municipalities)	7.15	6.72	..	..	..	..
(District Boards)	2.14	..	..	..	..	..
U. P. (Municipalities)	1.41	2.55	..	..	1.82	1.54
(District Boards)	..	..	..	..	2.90	5.88
Punjab						
(Municipalities)	·10	·03	..	..	..	..
(District Boards)	..	..	1.80	5.01	..	..
C. P. (Municipalities)	2.36	1.20	1.14	..	..	..
(District Boards)	·02	..	·02	..	2.33	..
Assam						
(Municipalities)	·02	·03	..	..	·51	..
Bihar (Municipalities)	·41	1.20	..	..	1.77	1.20
Orissa (Municipalities)	..	..	·21	..	..	·22
Sindh	..	·01	..	..	..	..
N. W. P.	..	·02	..	..	..	..

taxes in the different Provinces. In a sense it is anomalous that the local bodies in India should be permitted to levy a tax, the imposition of which is definitely forbidden to the Provincial Government, on the ground that its imposition by them would lead to multiple taxation and inter-provincial conflicts of jurisdiction. But this anomaly has not so far led to serious complications because the incidence of these taxes is very light and the local bodies have not shown any tendency to rely unduly upon them for their revenue. But there is inherent in the present position a possibility of fiscal disharmony which has to be guarded against. The nature of these taxes has to be explained in order to appreciate their actual and potential position in our local tax-system.

The Profession Tax or the Tax on Trades, Professions, Arts, and Callings, to give the name which is used for it in some Provinces, can be levied by the Municipalities in all Provinces and also by the District Boards in Madras. But the receipts derived from it are important only in Madras, the Central Provinces, and Bengal. The usual method of assessment is to divide the trades into a number of classes, assume that members of the same class have approximately the same average income and require them to take out licences for carrying on their trade or profession on the payment of a fee fixed with reference to the assumed average income of the class to which they have been assigned. The Calcutta Municipal Act of 1923, for example, divides the trades into seven classes. Licences have to be taken out not only by persons, but also by companies. The position of companies in the scale is determined by their paid-up capital, but that of the other business is gauged either by the rent which they pay for their place of business or some other general indices of their economic position. The tax is not only not progressive, but is not even proportional in its incidence. A company whose capital is Rs. 20 lacs or more pays Rs. 500 per annum, while one whose capital is Rs. 1 lac pays Rs. 100 p.a. A business,

the rent of whose place of business is Rs. 1,000 per mensem, pays Rs. 200 per annum, while one, the rent of whose place of business is Rs. 30 per mensem, pays Rs. 25 per annum. The maximum fee in Calcutta is Rs. 500 per annum and the minimum Re. 1. In Madras to give another instance, persons are assessed to the Profession Tax on a scale according to their income, if they are holding any appointment on a fixed salary, or with reference to "the nature and reputed value of their business," which, of course, means that they are classified on some sort of presumptive evidence of their economic position. The scale in Madras is very slightly graduated, the graduation varying from less than one-third of one per cent to ½ per cent in the case of the District Municipalities, and the District Boards, and from .7 p.c. to a little over one p.c. in that of the Madras City Corporation. There are separate taxes in Madras on companies which are assessed according to their paid-up capital, and are also slightly graduated. But graduation cannot be carried very far and the incidence of the tax on very large incomes is even lower than on the small incomes.

The method of assessment has to be simple because the local bodies cannot administer a highly complicated income-tax. The tax is assessed by the chairman or the executive officer and the object of assessment is to reach income indirectly and by outward signs and criteria. The accounts of the assessors cannot be called for and examined, though in some cases, as in Madras, the assessors can, if they so choose, produce accounts in support of their claim for remission in cases of over-assessment. Income from houses and lands are not included in the estimates of assessable income. In Madras, where the tax is of greater importance than in other Provinces and has been in force since 1865, "the unpopularity of the tax has", according to Mr. Cotterel, "worn away in urban areas[1] and no special difficulty is experienced in the levy and col-

[1] *The Indian Taxation Enquiry Committee Report*, Vol. VII, p. 305.

lection of the tax. In Calcutta also, it may be assumed, the people are also accustomed to the levy of the tax and there are no serious complaints against it; and though in other Provinces the tax is, relatively speaking, unimportant, there is no reason to suppose that there is anything in their circumstances to prevent their developing it more fully for local purposes.

The Tax on Persons assessed according to circumstances and Property and Haisyat Taxes are practically identical. The Haisyat Tax is being levied by the District Board in the Punjab and some of the Municipalities in the Central Provinces, and the Tax on Persons by the Municipalities in Bengal, the United Provinces, Assam, and Bihar and Orissa and by the District Boards in the United Provinces and the Central Provinces. The Chaukidari Tax imposed by the Provincial Governments in Bengal, Bihar and Orissa and Assam for paying the village police, which is, in areas in which the Village Authorities have been constituted, being developed into a general tax and is called the Union Rate, is also a tax on Persons assessed in the same manner. The District Boards, in levying the Haisyat Tax or the Tax on Persons, aim at making the non-agricultural classes pay their fair share of taxation. In the Municipalities in which the Tax on Persons is levied, it is a substitute for the House Tax, and a less satisfactory one. The rural local bodies have, since 1921, shown a tendency to develop this tax and it is not unlikely that left to themselves, they will make it a more important feature of their budgets.

The word Haisyat is not easy to translate, but it signifies the economic status of a person with reference to his income, property, profession, and general standing in the social scale. It is an economic concept, but its full import cannot be expressed merely by stating the income of the person concerned. Income is an important element in the determination of the Haisyat of a person, but that is not the only factor which goes into the reckoning. There are others which are less definite but not the

less significant on that account. A tax on Haisyat is, therefore, a tax on what may be called the economic personality of an individual. A Tax on Persons assessed according to circumstances and property is also a tax on the relative economic position of persons. For the appraisal of the latter "the income of the tax-payer, their social position, the sizes of their family,"[1] to quote from the Taxation Enquiry Committee Report, are all taken into account. The basis of assessment in both cases is more or less indefinite, and as the ordinary procedure of tax assessment requires a definite basis, it is essential for making a roughly equitable assessment of these presumptive local income taxes that the assessors and the assessees should know one another fairly well, and their personal touch should be a guarantee of the authenticity of the assessment from the standpoint of both the assessor and the assessee. Under such conditions "it is," in the words of the United Provinces Municipal Taxation Committee, "extremely difficult to say what the income of an individual may be. But there is very little difficulty, in a small community, in determining how individuals relatively stand,"[2] and that is what is required for the allocation to each individual his share of the communal expenditure, which is the real meaning and purpose of all tax-assessment.

The condition referred to above cannot, it need not be said, exist in towns or where these personal taxes are levied by the local authorities like the District and Taluqa Boards which have jurisdiction over large areas. In Bengal and the United Provinces experience has shown that the Tax on Persons cannot be efficiently or equitably assessed and its replacement by either the House and Professions Taxes, or one of them, has been seriously contemplated. In Madras the assessment even of the Professions Tax by the Taluqa Board had been found exceedingly difficult, and the difficulty would, of course, be greater

[1] *The Taxation Enquiry Committee Report*, Vol. I, p. 316.
[2] *The United Provinces Municipal Taxation Committee Report*, p. 35.

if the Tax on Persons was to be substituted for the Professions Tax. The Chaukidari Tax has been assessed and collected with a fair amount of ease in Bengal, Bihar and Orissa and Assam for a long time; and though the assessment was entirely made by official agency before 1921, its assessment by the Village Authorities, in the areas in which they have been constituted, has not, so far as is known, given rise to any dissatisfaction. A tax assessed on indefinite presumptions can be successfully administered only when the assessor can make up for the lack of definite data by using his instinctive judgment under circumstances which are their own safeguard against its abuse for ulterior or personal purposes.

What should be the future of these taxes in our system of local taxation? They are, as already remarked, local income taxes, and if we are to have local income taxes at all, why should they not be assessed as surtaxes on the central income tax? There is a provision in the Madras Acts for the levy of one p.c. surtax on the income tax as a substitute for the Professions Tax. The Government of India have not, however, seen their way to permit any local body in Madras to substitute the surtax for the Professions Tax. The Local Authorities cannot now even make use of the information at the disposal of the Income Tax Department for the assessment of their taxes. This information is treated as confidential and cannot be made available for the assessment of the local taxes. If the Government of India have no objection to the Local Authorities taxing incomes by the levy of the licence duties or assessing it on presumptive bases, it does not seem reasonable that they should not let the information collected by the Income Tax Department be used for the assessment of the local taxes. The assessment for local purposes could also be made by the Income Tax Officers themselves, and the necessity of making public the estimates of individual incomes thereby obviated. The local bodies generally fix their taxable minimum low, and it would, therefore, be necessary for the Income Tax Officers to

assess incomes for local purposes which are now exempt from the income tax. To give an example, the taxable minimum in the Punjab for the Haisyat Tax is Rs. 400 and in Madras for the Professions Tax Rs. 300. As the incomes below Rs. 1,500 are not assessable to the income-tax, it would be necessary for the Income Tax Officers to assess incomes between Rs. 300 and Rs. 1,500 for local purposes only which would, of course, involve additional cost. But this cost can, if necessary, be recovered from the Local Authorities. This difficulty is not fundamental and can be got over.

Why should then the Local Authorities not be permitted to levy the surtax for local purposes? In the first place, we have to take into account the fact that the Provincial Governments themselves have interest in a share of the income receipts, and it is not possible to let the local bodies have access to information which is denied to the Provincial Governments. But there can be urged a stronger and more conclusive reason against the grant of this power to the local bodies. Local income taxes have broken down everywhere because it is not possible to localise incomes. Each local body ought to levy surtax only on local income, and it is impossible under the increasing integration of economic life to differentiate incomes which can be regarded as purely local in origin. The same considerations, of course, apply to the proposals for provincialising a part of the income-tax receipts, but in the case of the local bodies they present almost insuperable difficulties and it is not possible to provide adequately against the complications which would arise if each local body is to have its own surtax on the income-tax. In the pre-war years, i.e., before 1914, Germany used to be cited as the country in which the local income-taxes were being successfully administered. But the local income-taxes are now a thing of the past even there and the German income-tax now is centrally assessed and administered. Centralisation of the income-tax has now, everywhere, become a necessity, and the levy of local surtaxes

would give rise to almost insoluble problems of the allocation of receipts.

The conclusion naturally leads to the question as to whether it would be right to let the local bodies levy the Professions Taxes if the levy of the surtax is to be forbidden. There is inconsistency, which has been referred to already, in permitting the levy of the one and forbidding that of the other. The inconsistency is there; and yet if the decision is to rest on empirical considerations, the levy of the Professions Taxes by the urban local bodies is not open to the same serious objection as the levy of the surtaxes. If no attempt is made to reach the income directly, the people are assessed by a system of classification into grades, and the rates of the tax are kept low, the Professions Taxes can be permitted to remain as subsidiary sources of local revenue[1] without raising any very difficult issues. The rates of the tax can be progressive only within very narrow limits as the lowness of rates cannot allow any wide range of graduation. The estimates of incomes must be based on external signs or criteria. The Calcutta practice of taking wherever possible the rent as a rough index of the income, can with advantage be adopted by the other towns and the tax can be graduated on that basis. The tax will only be of a secondary importance in the system of local taxation, but there is no reason why it should not be developed in the Provinces in which it is practically non-existent. If Calcutta and

[1] In 1939 the U. P. Government proposed to levy what was in effect a Provincial income-tax under the name of 'Employment Tax' —a new tax included in the Provincial list under the Government of India Act, 1935.

The proposal was passed by the provincial legislature, but the bill was reserved for the consideration of the Governor-General. As the position was somewhat doubtful, an amending Act had to be passed by Parliament under which the Provinces were empowered to levy this tax subject to the maximum limit of Rs. 50. This has rectified the position for the imposition of fully-developed income-tax by the Provincial or Local Authorities would be highly undesirable.

Madras can derive considerable revenue from the Professions Tax, there is no reason why Bombay should not do the same.[1] As the incidence of the consolidated Property Tax will mainly rest on the property-owners, the levy of the Professions Tax is the method by which the professional and business classes can be made to pay their share of local taxation. This device of reaching them is admittedly crude and aims only at a very rough-handed justice; but it has, all the same, merits which make it desirable that it should be more widely adopted and used as far as possible as a subsidiary source of local revenue.

The Professions Taxes cannot be efficiently administered by the District Boards because of the prohibitive cost of assessment and collection if a special agency is to be used for the purpose. The same is also true of the Haisyat and the other Personal Tax. In the villages, however, the conditions for the assessment of a roughly equitable personal tax are more favourable and it is there that this method of raising revenue can be more fully developed. If the yield from the tax is used for the benefit of the villages themselves, and the amount to be derived from it in a particular year is fixed by the Village Authority, its apportionment among the individuals according to their relative economic position can be made by the Village

[1] Mr. Clayton, the Municipal Commissioner, Bombay, in his evidence before the Indian Taxation Enquiry Committee made the following observation on the proposal for the levy of the Professions Tax in Bombay:—

"We examined the Madras system and the Calcutta system too, I think, and it appeared to us too nasty and inquisitorial for it to be carried out in a city of this magnitude."

Calcutta is as large as Bombay and, therefore, the size of Bombay cannot be urged as a reason against the imposition of the tax in that city, and as regards the Professions Tax being 'nasty and inquisitorial,' all that one can say is that it is not considered so in the other two Presidency Towns and there is no reason why it should be so in Bombay.

The Indian Taxation Enquiry Committee Report, Vol. VI, p. 381.

Authority on a basis which, given the necessary corporate sense, will be accepted as fair by the people of the village. This Personal Tax, which can conveniently be called the Village Rate, should not be a tax only on the non-agricultural classes. It should be a tax on all classes, though, of course, in assessing the relative economic position of the agricultural classes, due allowance will have to be made for the fact of their having to pay the land-revenue and the land-cess. The Village Rate will be a much better method of raising revenue for the common needs of the village than the House Tax which is being levied in the Madras villages and for the levy of which there is provision in the Bombay Village Panchayat Act. In Bengal, Bihar and Orissa and Assam the Chaukidari Tax can be converted into the Village Rate by provincialising the charges of the village police and developing it as one of the three principal sources which, as will be suggested in a later chapter, ought to be made available in these and all other Provinces for vitalizing village self-government and financing schemes of village reconstruction. The Village Rate will be an apportioned presumptive local income tax, but the fact that it will be apportioned and presumptive and local, not only in the incidence of its burden but also of its benefit, and assessed with reference to the 'reputed' capacity to pay of the assessees will ensure for it conditions under which its administration will be both efficient and harmonious. The argument may be summed up by saying at present the local income-taxes occupy a position which is somewhat anomalous, but can be placed on a basis which will be both workable and intelligible. There ought to be a local income-tax in all urban and rural areas. In the urban areas the tax should be a classified Professions Tax and assessed with reference to some external indices of the capacity to pay. In the rural areas also assessment has to be rough and ready, but should be made with reference to somewhat elusive but nevertheless real factors of a person's relative economic standing which can be easily ascertained

if the tax is administered by a village committee, and its proceeds utilized for promoting the well-being of the village.

The Passengers Taxes are direct taxes, but have the advantage of being collected easily and without much cost, and what is more, without the knowledge of the tax-payer, or at least without the fact of payment being obtruded upon his notice. The Terminal Taxes levied by the Calcutta Development Trust and the Pilgrim Taxes levied in the different Provinces are all collected by the Railway and Shipping Companies along with the fares. The Calcutta Terminal Tax and the Pilgrim Taxes are levied on the incoming passengers. The Passengers Taxes cannot be levied without the specific sanction of the Government of India, to obtain which it has to be demonstrated that the towns desiring to levy them are exceptionally circumstanced and, therefore, justified in taxing passenger traffic. The Pilgrim Taxes are being levied in Bombay, the United Provinces, and the Central Provinces, but in 1929-30 in Bombay and the Central Provinces receipts from them are only Rs. 1,000 and Rs. 5,000, and in 1939 Rs. 16,000 and 5,000 respectively. In the United Provinces, owing to the all-India importance of several places of pilgrimage, the tax is more important and in 1929-30 the receipts from it amounted to Rs. 3.3 lacs and in 1939-40 Rs. 2.2 lacs. It is easy to understand why the Pilgrim Taxes should be levied. The influx of, in some cases, hundreds of thousands of non-residents into a town on pilgrimage days brings with it new problems of civic administration and increases its cost, for defraying which the non-residents can rightly be taxed. But the levy of tax on passengers by Calcutta for making permanent improvements cannot be justified on similar grounds. The incoming and outgoing of passengers from these places is due to their geographical position, and is a normal feature of every port. In taxing the passengers they are taking advantage of their being gateways of commerce to levy a toll on the country as a whole. The fact that the taxes are not heavy and their payment is not

resented makes them tolerable, but does not change the fact that they are wrong in principle. The levy of such taxes has to be jealously guarded, and the fact that the Government of India have reserved to themselves the right of sanctioning their imposition is a safeguard which ought to find a place in the financial settlement of the new constitution.

Besides the Property Taxes, the Land Cesses, and the Taxes of Persons, there are a number of minor direct taxes which are being levied all over India, but are not important. The Taxes on Transfer of Property[1] levied by the Madras City Corporation and the Development Trust of Calcutta have an interest of their own owing to their being taxes on the capital value of property and can be developed in the other Provinces. Taxes like the Bazaar Tax in the Central Provinces are essentially sales taxes and are also, on that account, interesting. The Central Provinces Municipalities are levying another tax, i.e., the tax on registration of cattle (receipt in 1929-30, Rs. 54,000) which is also a tax on sales of a particular commodity. The Taxes on Servants and Dogs, which are levied in a number of Provinces, can be regarded as luxury taxes, which are, however, not very productive. There are a number of other local taxes like the Lake Frontage and Boat Taxes and the Mills Rent Tax in the United Provinces, and the *Dhobi* Tax, the cess pool tax, and the tax on Projections in Bombay, which are only of local interest. The Entertainment Tax[2] levied by the local

[1] The Local Self-Government Committee, Bombay, 1939, recommend that "steps should be taken to add the percentage on stamp duty (charged on the transfer of property) for the benefit of local bodies within whose area the property transferred are situate."

Reports of the Local Self-Government Committee, Bombay, 1939, Para. 52.

[2] In most Provinces receipts of the Entertainment Duty are being appropriated by the Provincial Governments for their own benefit. This is obviously wrong, and the recommendation of the Bombay Local Self-Government Committee that whole of the revenue derived from this source should be transferred to the local bodies (Report para. 57) should apply to all Provinces.

body in Madras has interest from a wider standpoint. In Bengal and most other Provinces it is being levied by the Provincial Government. The experience has, however, shown that as a revenue producer the tax has very limited possibilities. In a country like India it is right that in finance the local bodies should be given the liberty to make fiscal experiments and in some cases levy taxes which their peculiar circumstances or those of the area in which they are situated make desirable or practicable. The administration of these local taxes has, however, to be carefully watched for they are generally variants of the taxes on trade, property, and persons with regard to which, of course, the central regulation of policy and practice is highly desirable and necessary.

The local bodies in India are also charging fees, in some of which, however, there is an element of taxation, which is not only important, but also makes it difficult to distinguish them from taxes proper. Of these the licence fees levied on carts, carriages, and animals by the Municipalities in all Provinces are the most important. The licences are issued in order to regulate the use of these vehicles for pleasure and profit, but they are an important source of revenue. In the official reports they are classed as taxes; and though they are partly licence fees and have also an element of price in them, owing to their being regarded as charges for the use of public roads, these are very similar to the tolls and have an important element of taxation in them. Being confined to the vehicles used within the urban areas they do not interfere with trades as the Tolls do, and the maximum rates at which they can be levied are laid down in most of the Municipal Acts. The point which is of special interest with regard to them is that their yield is much larger in Bombay and Madras than in the other Provinces, which, of course, shows that in the latter there is room for developing them further for fiscal purposes.

The receipts from pounds, which are an important element in the finances of the rural local bodies, are like the fees on vehicles inasmuch as they are also derived

from charges levied for the purpose of regulation, their amounts are considerable in all Provinces and large in some[1] and in some Provinces they are much larger than in the others. In Madras the management of pounds has all along been in the hands of the Provincial Government and the local bodies in that Province are not deriving any revenue from them. The income from pounds in the Central Provinces is almost as large as that in Bengal, the Punjab, Bihar and Orissa and Assam put together, a fact which clearly points to the need of developing their revenue possibilities in the latter Provinces.

The income from pounds is derived from the administration of the Cattle Trespass Acts. It is income from an incident of rural economy which involves the discharge of a public function and gives to the authority charged with its administration power to take punitive measures and thereby increase its income. The fact that the impounded cattle have to be taken care of and the pounds provided also increases its expenditure; but the income derived from pounds is in excess of the cost of maintaining them and the net receipts are neither profits nor tax-revenue. It is not easy to say what they are. They are fines, but their fiscal intent is an important reason for levying them as their deterrent effect. The fact, which is important, from the

[1] *Receipts from pounds in the different Provinces in* 1929-30 *and* 1939-40

	1929-30 Rs. (lacs)	1939-40 Rs. (lacs)
Bengal	3.00	.70
Bombay	5.04	2.35
United Provinces	7.92	6.21
Punjab	1.81	1.35
Central Provinces	9.34	10.90
Assam	1.52	1.80
Bihar and Orissa	2.98	1.34
Orissa	..	.10
Sindh	..	1.23
N. W. P.	..	.01

practical standpoint, is that the administration of pounds is tax in most Provinces, and larger receipts from them can be anticipated and ought to be realised.

Besides licence fees charged on vehicles and income realised from the maintenance of pounds, the Municipalities and District Boards charge miscellaneous fees, the primary purpose of which is regulation, but which are, in a few cases, a source of considerable income. The distinction between fees and taxes is supposed to lie in the fact that in the case of fees special benefit to the individual is taken as the basis on which they are levied, while in the case of tax assessments, of course, special benefit is of no consequence whatsoever. Special benefit may mean benefit derived from specific services or particular privilege. The pawnshop licence fees are a payment for the privilege of carrying of this business; but in this and similar other cases it is not easy to distinguish between payment for special benefits and taxation for general purposes. The scale of fees is determined by practical considerations; but the public authority is and ought to be guided as much by its revenue requirements as by the value of special privileges in fixing the charges. An improvement in the efficiency of the general administration of the local bodies will enable them to increase the receipts from fees as from the other sources of revenue. At present, in spite of a few exceptions, their fiscal importance is practically negligible.

The taxation of railways, mines, and forests for local purposes has everywhere given rise to some difficult problems of principle and assessment. In each case there are conditions inherent in the very nature of the undertaking which render the task of the local assessor very difficult. In the case of the railways the difficulty arises as it is almost impossible to determine the annual or Capital value of Railway property on a local basis. Railway property is not let, and is not intended to be let. As the letting value of this kind of property is not known, its annual value cannot be estimated in the ordinary

way. But what is still more vital is that every railway is a concern which has, for the purposes of valuation, to be taken as a unit. Its property at a particular place has value because it is a part of the whole undertaking, and "if it is not", to quote from Acworth,[1] useful as a railway it is "useful for nothing else". The comparative standard cannot be used, on that account, for the purpose of assessment, and local assessment is out of the question. The adoption of the capital value basis of assessment does not improve matters because we are again, in the words of the Ontario Railway Taxation Commission, "confronted with the fact that there is no market for railroads, even as entities, much less in sections."[2] Again the assessment of railways on a local basis cannot be undertaken, and the criterion, with reference to which capital value is generally appraised for taxation purposes, is lacking. The result is that in the assessment of railways there a great deal of confusion in the field both of theory and practice.

In England the assessment of the Railways has been centralised by the Railways (Valuation of Rating) Act, 1930, and a central authority constituted for the purpose. The central authority assesses the stations upon the contractors' estimates, viz., their capital value, and their annual value is assumed to be a certain percentage of the estimated capital value. The annual value of the rest of railway property is estimated with reference to the average net receipts, and apportioned by the central authority among the different local bodies according to the mileage of running lines in each rating area—a basis which is arbitrary but has to be accepted because the allocation of receipts, which accrue from the working of a railway system as a whole, cannot be made on any more rational basis.

In the United States of America, where the capital

[1] *Elements of Railway Economics*, p. 12.
[2] *Report of the Ontario Commission on Railway Taxation*, 1905, p. 13.

value basis is in force, the assessment of railways, has also been attended with great difficulties. One conclusion which has been forced upon most of the assessing authorities is that the valuation of railways must be made on the unitary basis, i.e, they must be assessed as a whole. In America there is still, as there was in England until 1930, the local assessment of railways in some places, but there is a growing tendency to entrust it to a central authority; and generally now the work is undertaken by the State Tax Commissions. For ascertaining the value of railroads "the most weight is given to the earning capacity of the corporation, in other words value of the property is determined primarily by capitalizing the corporations' net earnings"[1]. But this is not the only basis on which assessments are made. In some cases the value of stocks and bonds is made the basis of assessment. This method of valuation involves the fewest assumptions and being based on objective facts, it has certain advantages of its own. The other method of valuation, which is adopted in some States, is that value of the property is assumed to be cost minus depreciation, cost being assumed to be either the original cost or the reproduction cost. The valuation made on one of these bases has to be apportioned among the local bodies, and the bases on which that is done vary from State to State. The problem of valuation has been found to be very complicated, and though some of its complications are due to political causes, most of them are due to the very nature of the concern and require very skilled handling.

In India the present position is somewhat different. No attempt is made to assess the value of a railway as a whole. The Municipalities only tax the lands and buildings of the railways, and though it is not known what methods they adopt in assessing their value, from

[1] *Report of Special Committee on Retrenchment and Taxation, New York State*, 1922, p. 112.

what the Taxation Committee has said[1] about the methods used by the Bombay Corporation, it seems that the contractors' estimate is a method which is likely to be found most convenient in actual practice. The exemption of the operative property of railways from assessment simplifies the problem of assessment, but if the railways are held to be fully liable to local taxation, this exemption involves the assumption that the benefit is the sole basis of assessment in their case.

There is, however, lack of uniformity in the taxation of railways in the different Provinces and by the different local bodies. In the Provinces in which the Municipalities levy Octroi or the Terminal Tax, the railways do not pay the most important local tax because their stores are not liable to the payment of these duties. In the rural areas the railways do not pay any local taxes. They are completely exempt from the payment of the Land Cesses, and the exemption applies not only to their stations and permanent way, but also to the mines owned by them. They are not liable to the Chaukidari Tax[2] or the Union Rate as it is now called, in Bengal, Bihar and Orissa and Assam unless and until this liability is declared by a notification of the Government of India. The Village Self-Government Acts do not contain any specific provision regarding the taxation or exemption from taxation of railways; but it can be assumed that they are not paying any local taxes outside the urban area.

That the present position is not satisfactory will become clear if it is examined a little carefully. The liability of the railways to all local taxes has been repeatedly admitted by the Government of India.[3] "There is no reason", they affirmed in their Notification of

[1] *The Taxation Enquiry Committee Report*, Vol. I, para. 460.

[2] Vide Section 135 of the Indian Railways Act 1890 and Para. 146, Bengal Union Board Manual.

[3] Vide Notification 270 dated 12-6-1890 and Notification 9997 dated 29-11-1907.

1907 on this subject, "why they (railways) should not pay for specific services actually rendered, nor why they should not, like other holders of property within the areas administered by the various local authorities, bear their share of the general taxation imposed for purposes by which they directly or indirectly benefit". If this view is accepted as correct, there is no reason why they should not pay rural local taxes. The Taxation Enquiry Committee has justified the exemption of railways from the Land Cess on the ground that since the Cess is imposed chiefly for the purpose of the maintenance of roads and one of the main purposes of the railways is to relieve the roads of traffic and so decrease the cost of their maintenance, it is illogical to subject them to cesses for the maintenance of roads.[1] The Cesses were originally levied for the maintenance of roads; but in the last two decades the District Boards have, by drawing upon the budget allotment for roads whenever they wanted to reduce expenditure or find money for other purposes, been trying to make it clear that now the roads are not to be regarded as having any priority of claim over their funds. But even if that were not so, and the main purpose of the levy of the cesses is assumed to be the maintenance of roads, they are benefited by their construction more than by other activity of the local bodies if they are, as they generally have been in the past, feeder roads. Once it is accepted that the railways should bear their share of general taxation, there is absolutely no reason why they should not be as much liable to the rural as to the urban local taxes.

It, however, can be disputed whether the taxation of railways for local purposes is right in itself. In England, as already stated, they have been relieved from three-fourths of the burden of local rates, and Dr. Cannon was of opinion that they should be relieved altogether as they do not add to the cost of local administration.

[1] *The Taxation Enquiry Committee Report*, Vol. I, p. 333.

The Government of India, in their Notification of 1907, held that the railways should pay local taxes, because they all, like all property holders, were benefited by local services. The Government and Port Trust property is also assessed to local taxes on the assumption that it is benefited by local expenditure. But it is obvious that the Government, the Port Trust, and the Railways are not benefited in the same way and to the same extent as the private persons. When the local bodies were concerned with the simple functions like lighting, road construction and maintenance and general conservancy of the local areas, the benefit theory had a semblance of validity. These are the functions which the local bodies undertake to perform collectively, but they would have had to be performed individually if the local bodies were non-existent. Even in this reasoning there is an element of unreality; but if the whole conception of civic function is widened and the local bodies make themselves responsible for education, health, and general well-being of their citizens, and their whole horizon is determined by the need of promoting the welfare of the people in the widest sense of the term, the argument that these corporate persons are liable to the local taxes like all other property holders loses much of its force. Lighting, conservancy, and road-making are important public functions, and in India, where anything like the adequate provision for these elementary needs is still a hope of the future, they are sure to have an important place in all local budgets. But the point which needs to be stressed is that local expenditure, like all public expenditure, is beneficient from the standpoint of the general good and in the apportionment of local tax-burden, the incidence of the benefit on the individual is a matter of secondary importance. If the capital or annual value is to be taken as a basis of assessment, it is because it is a measure, not of the benefits received, but of the ability to pay; in other words, the local taxes are levied on persons and not on property and the tax

liability is, or ought to be, determined on that assumption.

But the Government, the Port Trusts, and the Railways are legal or corporate persons and the canons of taxation, which are valid in the case of the individuals, are not valid in their case. In countries where the railways are privately owned, they ought to be taxed under some form of corporation tax and the receipt from railway taxation should be appropriated by the central government. The attempts to allocate these receipts among the local bodies on crude basis, like the running mileage, or the number of train miles in each local area, are based on fictions which are not only untrue but obsolete. In India, however, the railways are mostly owned by the State, and ought to be regarded as Government property for the purpose of taxation. In the financial arrangements of the future, taxing of one public authority by another ought to be unnecessary, because the finances of the Central and Provincial Governments can now be readjusted on the assumption that all payments by the superior to the subordinate public authorities should take the form of assignments from common funds and not through taxation of the one by the other. The railways, therefore, should be relieved of local taxes not because they do not add to the cost of local administration or derive no benefit from local expenditure, but because the elements of both cost and benefit are irrelevant to the assessment of local, as of all taxation, and the ordinary measures of ability to pay are utterly unsuitable for regulating the mutual relations of the different public authorities.

This suggestion is not made with a view to cut the knot to save the trouble of untying it, but because it is based on a realistic view of the facts of the case. Local taxation of railways has everywhere been a source of so much confusion because the taxing authorities refuse to face the vital fact that the railway operations transcend the boundaries of local jurisdictions, and the

railways are a concern which have to be taken as integral entities, both for the assessment of tax liability and the allocation of receipts. In India the railways ought to contribute to public exchequer by earning profits and not through taxation. This solution is simple but also effective and in accord with the facts of economic life.

The exemption of local taxation should not, however, apply to the railway colonies which the railways establish for the benefit of their employees. The houses are railway property, but are either let to the employees or are occupied by them on terms which have a money value. In taxing these houses, the local body will really be taxing the occupiers who are not entitled to any exemption on the score of their being employees of the railways. They should, of course, be exempted from charges for specific services if they—the railways—make their own arrangements for them. But the only services which can be regarded as specific are water-supply and private scavenging. In his evidence before the Taxation Enquiry Committee, Mr. Sim claimed exemption from the payment of special Education Cess of 25 p.c. levied in Madras on the ground that the education cess was not a general tax.[1] This sort of argument carries its own refutation in its face; but there are subtler ways of reasoning by which an escape from fiscal obligations can be sought. All these avenues can be easily closed if the local authorities levy a consolidated rate for all services except the two referred to above and assess all, including the railway employees, to them on a uniform basis.

The taxation of mines gives rise to difficult problems of assessment because it is not easy to distinguish between their annual and capital value. The annual output of mines contains element both of income and capital; and as the progressive exhaustion of a mine

[1] *The Taxation Enquiry Committee Report*, Vol. VII, p. 592.

proceeds further and further, the fact of its annual receipts containing an ever-increasing element of capital becomes all the more obvious. The income from mines is in the nature of terminable annuities. This is, as is well known, a method of equated payments adopted by the State by which the creditors or investors receive payment of their interest and repayment of a part of their capital every year. In the case of the terminable annuities it is easy to distinguish between the two parts of the receipts as the rate of interest and the total capital are both known. But the capital value of a mine can only be estimated by engineering guesswork, and there is a speculative element in all estimates which makes it very difficult to differentiate between the elements of capital and income in the annual receipts of the mines.

In India the mines are being taxed on their output and their estimated annual value. In Bengal and Bihar and Orissa they are liable to the Land Cesses on their annual value which is defined as the income from royalties in the case of the owner and as profit in that of the operating companies. The mines have to pay special cesses for local purposes, and in certain cases they are charged for health expenditure and water-supply on their raisings or despatches. In the Central Provinces also a cess is being charged on the quantity of coal exported. In Bombay the cess at the rate of one anna in the rupee has to be paid on the rent and royalty payable on mining leases. In Assam a cess is levied on the surface rent only, and in the Punjab, the United Provinces, and Madras the mines do not pay any special local taxes.

It is necessary to have fuller information on the subject to comment upon the theory and practice of local taxation of mines in India; but it is clear that the complexity of the problem is not appreciated and attempt is being made to adjust the methods suitable for the assessment of real estate to the taxation of mines for local purposes. In England also the mines are still being assessed on the parochial basis, and their rental

value is estimated with reference to the profits derived from them. In America the position is equally unsatisfactory, and in a number of cases local assessors are left to their own devices in the matter; but the taxation of mines on the basis of output is becoming increasingly common and several states have undertaken the engineering appraisal of the mines for taxation purposes.

The technique of taxing the mines has, owing to their peculiar conditions, to be different from that of taxing the ordinary property. It is possible to introduce not only the principle of progression but also that of differentiation in the taxes levied upon them. They have to bear their share of the burden of local taxation in the local areas in which they are situated because they dominate their entire life. But as the conditions of mining areas are different from those of the other areas and present their very special problems, it is desirable that they should be constituted into separate districts for the purpose of local self-government and allowed to work out their own solution of the difficulties. The assessment of mining property to taxes must, however, be undertaken by the Central Valuation Department, and for the purpose it should develop special technique based on the study of local conditions and the special circumstances of the industry. The application of the concept of the rental value to mines of all sorts is an attempt to fit the facts to theories instead of fitting theories to the facts. The facts of mining industry call for the application of new theories based on an objective study of the facts. In India it is impossible, on the basis of the available information, to formulate any theories which will meet the needs of the case; but it will be a great gain if we recognise the fact that the taxation of mines has some special problems of its own which cannot be tackled on the basis of our accepted working hypotheses.

The taxation of forests in India is no problem because almost all the forests belong to the State—i.e., the Provincial Government—forests being a provincial subject.

The Forest Revenue is already an important element in the budgets of some of the Provinces and can be more fully developed in almost every Province. On the assumption that the different political authorities will not tax one another, the problem of local taxation of forests does not possess, and will not assume, any practical interest. But there are few wooded estates which are privately owned, and in their case it will be necessary to adopt some principles of general application for the purpose of local taxation. The problem in their case, as that of the mines, centres round the difficulty of defining the capital or annual value of forests with any degree of precision. Timber on lands takes thirty to forty years to come to maturity and during the period that it is growing, it is not easy to apply to it a tax policy which will readily commend itself as sound from the standpoints of equity and economy. A tax on growing forests, which yield no income for 30 or 40 years, is likely to bear very heavily upon the owners; and a tax on the yield when timber is cut can neither be assessed as a pure income-tax nor as a tax on its capital value. The value of timber is both income and capital, and the two elements are inextricably intermixed. The problem, in India, as remarked above, will not become urgent or serious, but it will arise in a few cases and have to be dealt with by methods specially suited to the facts of the case. Nothing is known about the methods of local taxation of forests in use now. Probably the lands under private forests are being assessed in the same way as the agricultural land. That means the annual value of the land alone is being taxed and there is no local tax on private timber—mature or immature. This is one of the minor problems which the Valuation Department will have to deal with and solve.

There are two sources of local revenue which are of great potential importance, but which are practically not being used at all now. They are special assessment and the unearned increment value tax. Special assess-

ments are not taxes, in the ordinary sense of the word. They are not even fees. They are public levies which are a class by themselves. They are imposed to defray the cost of specific local improvements, and have, owing to their having been levied in the United States of America, come to be regarded as a characteristically American development. But their underlying principle is simple and capable of universal application. In India, owing to the urgent need for funds and the imperative necessity of initiating a programme of all-round development, it is essential that the principle should become an integral part of the local development finance. The principle is that when an improvement initiated by a local authority in the public interest increases the value of property in a particular district, the cost of the improvement should be recovered from the property owner according to the measure of their benefit.

In the United States of America the amount which the property owners have to contribute is generally determined either by the cost of the improvement or the value of the benefits whichever is less. That is, if the cost is in excess of the value of the benefits, the assessees have to pay in proportion to the increment in the value of their property and the uncovered cost has to be met out of the public funds; and if the increment in the value of the property exceeds, as it often does, the cost of the improvement, the cost is assessed on the owners on the benefit basis, but they are allowed to appropriate the surplus value. In some of the Improvement Trust Acts there is a provision for levying contributions on the owners in respect of the increment in the value of their property due to public improvements. But in all of them the power of the local bodies are specifically limited to assessing them in aggregate to a part and not the whole of the increment. The principle of special assessment is that the cost of a local improvement should be charged to the property owners when it confers special benefits upon them, but all bene-

fits incidental to that local improvement should, so far as they are reflected in money values, enrich not private individuals, but the public authorities.

Though there is a provision in the Acts referred to above for the levy of special assessments, this source of revenue has practically not been developed at all in India. In the United States of America special assessments are levied for all sorts of local improvements, from street-widening to the construction of the public utility services. Any service that confers a distinct local benefit is financed partly or in the whole by special assessments. In India the expenditure by local bodies has been beneficial for the local property owners, but the importance of charging them for the improvements has not received any recognition. The Improvement and Development Trusts have spent vast sums of money on carrying out schemes of sanitary and other improvements. The Municipalities themselves—large and small—have incurred expenditure on street paving, grading, and widening, on sewers and drainage works, on parks and boulevards and on other functions of the same kind. In the case of the small Municipalities what they have been able to do for town improvement has been limited by their resources; but just for that reason this method of financing local improvement should have commended itself to the attention of the local authorities and the Government. But in India our horizon in all matters relating to public finance has been very limited; and in the matter of special assessment not only the local authorities but also the Provincial Government, who have always made a comment on the unwillingness of the local bodies to develop their resources a stock complaint in their annual reviews of working of the local bodies, have not appreciated the place and importance of special assessments in local finance.

Every Local Self-Government Act should, it is suggested, make it obligatory for every local body to make use of special assessments for local development.

The Land Valuation Department will have to draw upon the accumulated knowledge and experience of other countries to develop the technique of special assessments in India. It may be necessary to adopt some methods which are not being used elsewhere; but, on the whole, the methods in use in other countries will be found to work well in India as well. Since special assessment has to be based on benefits, the cardinal point in assessment will, of course, be determination of the index of benefit. Frontage, superficial area, and proximity are the factors to which the greatest weight will have to be attached in fixing the index; but in each case local conditions will have to be carefully examined before coming to conclusion regarding the criterion or criteria of benefit valuation. Special assessment will, it is obvious, be of special importance in the urban areas; but there is no reason why their use should be confined to them. In the rural areas also, especially in the villages, it will be possible to make a limited use of special assessments for the execution of schemes of local improvements. Valuation for special assessments will, in most cases, be beyond the capacity of the local assessor; but the arguments of this chapter have been developed upon the assumption that valuation will become the function of a department which will be at the disposal of the local bodies but not under their control.

The other tax, which has great unrealized possibilities, is the Unearned Increment Value Duty or, to use the shorter name which has become current, the Land Value Duty. Besides the increments in the value of property which take place owing to the specific local improvements, the benefits of which can be allocated, there are increments which are due to the general development of the local areas and social progress of the community as a whole. It is now generally admitted that one need not be a single-taxer, or believe in the efficacy of land value taxation as the panacea of all economic and social ills to advocate the levy of a duty on the

unearned increment value of land for local or general purposes. Privilege is now accepted as a legitimate ground for the imposition of differential taxation, and the ownership of land carries with it the privilege of becoming special beneficiary of the general progress of the community and ought to be the basis of special tax liability. The value of both urban and rural land is increased by the working of the social factors; but in the case of the urban land the local factors are more important than the general factors in increasing its value, and land values, therefore, afford specially promising and suitable basis for local taxation. It is not necessary to discuss here the question of the administration of the Land Value Duty. That will have to be seriously considered, but if we can educate the people to the necessity of levying this tax, its administration will not give rise to any insoluble problems. This tax has, since it was introduced for the first time in Germany in 1904, become a common feature of the local finance of a number of countries and is being successfully administered by them. The adoption of the capital value as the basis of assessment for the general tax and its administration by the Central Valuation Department will make it easier for the Municipalities to levy and administer the Land Value Duties. It is a source of revenue which has, as remarked above, great possibilities which ought to be realised.

Now that the present position, the principal features, the merits and shortcoming of all the important local taxes have been explained and discussed and suggestions made for changing the whole system of local taxation, it is necessary to deal briefly with the system of local taxation as a whole and state how the proposed changes will affect the finances and mutual relations of the different local authorities. The one problem of local finance in India, the importance of which overshadows that of every other, is the problem of increasing the resources of the local bodies. This can be done by placing them in a position to develop their existing sources of revenue

or their substitutes and introduce some new ones. The same object can, of course, also be achieved by relieving them of a part of their expenditure by transferring some of their functions to the Provincial Government. It will be necessary to use both methods of easing the situation; but here we are concerned only with the first one.

The main features of the system as it will emerge if and when the proposed changes are carried out may be outlined. The first and the most important change that will be introduced, will be the abolition of Octroi and Terminal Tax in the Provinces in which they are levied at present and the imposition of the sales tax, not only in those Provinces but also in all the other Provinces. The Sales Tax will be administered and collected by the Provincial Government, but its receipts will be distributed among the local bodies and used to meet the local expenditure. It is unnecessary to say again why these changes are proposed. Their result will be that the octroi system, whose grave abuses have continued unchecked in spite of the repeated efforts of the Government of India and the Provincial Governments to keep it well under control, will be abolished and Terminal Tax, which threatens to shift the burden of taxation from the urban to the rural classes still further, and create a situation which will give us a network of local transit duties, will no longer cast its onimous shadow on the future. The Sales Tax, which will take their place, will be more productive and much better regulated. Its levy will, it has to be admitted, not improve the system of local taxation from the standpoint of its incidence as between the different classes, but it will be more equitable inasmuch as it will redress the balance in favour of rural classes.

The changes in the direct local taxes will not be as radical, but not less far-reaching on that account. The Property Tax and the Land Cesses will continue to be levied. But the basis of assessment of both will be changed from the annual value to the capital value, and

the standard of assessment will be raised by entrusting it to the Valuation Department completely independent of the local electorate and staffed by men who will be expected to attain and maintain the civil service standard of efficiency and integrity. This will be a great gain from the standpoint of productivity and equity. The yield from the taxes will increase because the under-assessment of the Property Tax in the urban areas will be put an end to, and there will be no inclination to discriminate in favour of particular classes. The Property Tax will be levied at a consolidated rate for all general services and every Municipality will have to levy and develop it. This change will be made because the assumption that there is a fundamental difference between the people of the various Provinces in their attitude towards direct local taxation, is only a cloak for unwillingness to make an unpleasant but necessary change and not in accordance with the facts. The consolidated Property Tax and the Land Cesses[1], which will not be surtaxes on the land-revenue but become taxes on the capital value of the land, will be levied at progressive rates and the introduction of compulsion in the imposition of the Property Tax by the Municipalities and of graduation in that of the Property and Land Taxes will make them more productive and the whole system of taxation more equitable.

India will have its direct local income-taxes. But in the towns they will occupy a secondary place in the system of local taxation and be levied in the form of low licence duties which may be slightly progressive but will not be an important element in determining the income from, or equity of, the system as a whole. The

[1] In most Provinces there are prescribed maximum limits for the levy of their taxes. In view of the well-known hesitation of our local bodies to tax themselves what is necessary is that minimum limit should be laid down in the Act and all the maximum limits removed. The revision of rates should, however, be subject to the prior sanction of the Provincial Government.

taxes, like the Haisyat-Tax and the Tax on Persons assessed according to the Circumstances and Property, which are assessed on what the United Provinces Municipal Taxation called "the general air of prosperity", will not be levied by the Municipalities or the Local Boards because the two conditions—i.e., personal knowledge and a small and compact area of assessment—which are absolutely essential for fair assessment can only be provided in the villages. There the tax can and ought to be imposed and become an important source of revenue.

There will be other sources of revenue which collectively will be of considerable importance. The Tolls are a source of revenue which the modern methods of transport are making more and more anachronistic and ought to be abolished; but they are of special importance only in Madras and there their future will be determined by the exigencies of the local circumstances. In the other Provinces any tendency to develop them further ought to be rigorously repressed and their eventual abolition aimed at. The Passengers Taxes ought to be levied very sparingly and only by the local bodies whose administration is subjected to extraordinary strain owing to the influx of the temporary visitors on special occasions. The tendency of ports, like Calcutta to tax the incoming or outgoing passengers for local purposes, will have to be regarded as inequitable owing to their incidence on the non-residents and discountenanced on that account. Each Province will have some taxes which will be purely local, and the local bodies will be permitted to experiment with the introduction of taxes which may be suitable under the local conditions and do not have unfavourable repercussions on the economic life of the country as a whole. The licence fees, like the duties on carts and carriages, receipts from the administration of the Cattle Trespass Acts which will be levied in exercise of the regulatory functions of the local authorities, will have a place of their own in the economy of the local bodies, and it will in the future, as it is now, not be

easy to distinguish them from pure taxes. The income derived from them will not be merely incidental for they will continue to be administered as important sources of local revenue.

There will be two new sources of revenue which the local bodies will have at their disposal. These two sources will be innovations, the introduction of which will be justified, of course, by the need for revenue, but also because the considerations of fiscal equity make such a course highly desirable. Special assessments and the Land Value Duty are fiscal expedients which have already been tried and not found wanting in other countries and can be levied in India without any misgivings.

The receipts from the sales tax will have to be distributed among the local bodies. On account of the widely diffused incidence of the tax, the only basis on which this can be done is the population or the *per capita* basis. The introduction of the sales tax can, as a matter of fact, be made the first step in the inauguration of this scheme of tax reform. The tax can be introduced in all Provinces without making any other change. The wholesale merchant, who may have to pay both the Sales Tax and Octroi or the Terminal Tax can be granted rebates in respect of the latter, and when the administrative success of the tax has been established beyond question, the Municipalities which are levying Octroi or the Terminal Tax can be required to abolish them and guaranteed for a period of say, five years, compensatory assignments from the sales tax receipts. They should utilize the period for levying and developing the Property Tax. The balance of the sales tax receipts over and above the amounts assigned to the Municipalities will, of course, be distributed among the other local bodies according to the population of the areas in their jurisdictions, and when the transitional period is over all local bodies, urban and rural, will be placed on the same footing and receive their assignments on *per*

capita basis. The receipts from the Property Tax may not for some time make up for the loss of the Octroi or the Terminal Tax revenue, but they, together with the assignments from the Sales Tax receipts, will give them revenues larger than they have at their disposal now, and as the yield from the Sales Tax will most likely be much larger than the revenue derived by the local bodies from the indirect local taxes, very few Municipalities will really take five years to make the necessary readjustments. These are, however, matters of detail which will have to be carefully considered before these changes are made. In the Provinces in which the Octroi and the Terminal Tax are not being levied, the imposition of the Sales Tax will not necessitate any readjustments. Its receipts will be a net addition to the revenues of the local bodies and distributed among them on the population basis.

There are two objections to these proposals which can easily be anticipated. One is that they aim at a degree of uniformity in local taxation all over the country which will be undesirable in a country like India, and the other that the changes amount almost to a fiscal revolution in local taxation and cannot be easily made. The answer to these objections is the same. India is on the eve of great changes in her whole national life and has to cover the track of centuries in years. These proposals do involve radical changes, but they are not too radical for a country which has to start on what is really a new adventure in its history. They are nothing compared with the other changes which are inevitable and which will make it necessary for the people to think in terms of the new facts and not of the old formulas. Not only India but every country is face to face with the economic facts which are the same everywhere and which will determine the course of the world history. Tax systems are, and must be, organic parts of the economic system, and their harmonious working depends upon the two being in unison with each other. Uni-

formity in the field of local taxation will, therefore, reflect the common basic facts and the common needs of our national life and will be vitalizing and not deadening factors. There will be room for experimentation in local taxation and each local body will, if it can, turn the local conditions to its own advantage; but the framework of the system will be the same all over the country and it will, it may be repeated, work well only if the vital facts of our national life receive their due consideration on all hands.

LECTURE V

LOCAL REVENUE—BUSINESS ENTERPRISES

The local bodies in India do not depend upon business enterprises for their revenue to any considerable extent. Should they? The answer to this question does not involve the necessity of our raising wide social issues. Not only in India but in every other country of the world, the "gas and water" socialism is not a live issue from the standpoint of a radical reconstruction of the whole social system. The vested interests in some countries are making use of the old and well-worn phrases to resist attacks on their particular preserves: but now the whole centre of gravity of economic life has been shifted so far that very few people can take conscientious objections to the municipalisation of some services on the ground that it would amount to municipal socialism. In India where the State owns the railways, the canals, and the forests and still officially adheres to the view that all land has always been and is now public property, there cannot be any objection to the local bodies undertaking some business enterprises on grounds of policy. The Government has not, in the past, discountenanced enterprise on the part of the local bodies in this sphere, though they have generally taken a sceptical view of their ability to manage undertakings like electricity and tramway. The Government has, as a matter of fact, been urging upon the local bodies the necessity of exploring all avenues of increasing their non-tax revenue, though in practice they have generally drawn a line beyond which they have not permitted them to go owing to, as stated above, their having adopted the view that the local bodies are not in a position to command

the necessary resources and ability. The question, therefore, as to whether the local bodies should or should not undertake and develop such enterprises has to be settled by considerations of expediency and not of high social principles; and that, not because these principles are wrong, but because their application now has to be made on such a broad basis that it is hardly necessary to discuss their bearing upon the minor issue like the one with which we are concerned here.

The present position of the local bodies with regard to these enterprises can be easily explained because they have not, so far, embarked upon any ambitious programme of what is generally called municipal trading. But before this is done, it is necessary to make clear the distinction between two objects with which the local bodies can start and manage business enterprises. One of them is the provision of an essential service on the cost of service basis. The view is, as a matter of fact, held by some that this should be the only object with which a local body should undertake any enterprise which requires a large investment of capital and for which prices have to be charged. Bernard Shaw in his well-known Fabian Tract "Commonsense of Municipal Trading" written in 1904, when the proposals for the introduction of municipal trading had all the appearance of being a revolutionary measure, laid down the principle based upon that view. "The object of municipal trading", he said, "is not the relief of rates; if it were, it might be manipulated so as to throw the entire burden of local taxation on certain classes of consumers. Its object is to provide service at cost price."[1] The local bodies were, according to him, to undertake these services, but rule out the object of making profits. "The absence of profits," he wrote on the next page, "is, in fact, a proof of the proper conduct of the enterprise." Trading without profits sounds like a contradiction in terms, but has the merits of being paradoxical and, therefore, striking;

[1] G. B. Shaw, *Commonsense of Municipal Trading*, p. 86.

and, any way, its meaning is quite clear. The case for the local bodies entering this field with a view to render an essential service efficiently and charge for it only the cost price is very strong in the case of some undertakings. But that necessarily means that they are not to be regarded as remunerative enterprises in the ordinary sense of the word and cannot be a source of revenue.

The social benefits of providing services which contribute to the efficiency and well-being of the community are real revenue and enable the local bodies to raise the standard of civic life, which is the object of their existence; but the fact that they do not make any money out of these enterprises places them on a different footing from those which yield net receipts, and there is no valid reason why the local bodies should not undertake the latter. The enterprises which can be owned and run by the local bodies are generally of special importance from the social standpoint. Gas, electricity, street railways, and trams are of vital importance to the well-being of the towns, and that and the monopolistic character, which is inherent in them, constitute the reason why they should be socialised. But that is no reason why profits should be ruled out altogether. The taxes should not be reduced or at least there should not be a general reduction of local taxation because profits are being made. Profits are, however, not illegitimate in themselves and the local auditor need not, as Bernard Shaw in the tract referred to above, suggests that he should, regard a business undertaking as unsound because it is not only a public utility but also a profit-earning concern[1]. The

[1] In this respect different countries have adopted different policies. The position in Great Britain, Germany, and U. S. A is indicated in the following quotation from the *Encyclopedea of Social Services* —

"In the operation of municipal undertakings, particularly in England and Germany, where they assume considerable importance different policies are followed by Governmental authorities with reference to their earnings. In England it is the general policy to

distinction between the two kinds of business enterprises is important. Both are alike inasmuch as their social purpose is of primary importance, but the enterprises which yield and are expected to yield revenue are important from the standpoint of the local treasury while the others are not. The latter may be called business enterprises but they have to be dealt with in a chapter on 'Local Revenues' because that is the most convenient arrangement. They are not revenue producers.

The most important business enterprise[1] of the local bodies in India belongs to the second category. Water-supply in towns, in which water-works have been constructed, is a municipal undertaking, and in all Provinces they are meant to be self-supporting and no more than self-supporting. There is a provision[1] in the Municipal Acts that the charges for water-supply should not, in aggregate, exceed the cost of constructing and maintaining the water-works in a good working order. The published accounts of water-works, for reasons given in the succeeding paragraphs, are, in most cases, some-

operate these undertakings on the minimum charges consistent with efficient service and the maintenance of adequate reserves. Any profit from them, which may be transferred to the support of the general municipal budget, is regarded as an indirect tax. In Germany, however, municipal undertakings are generally operated with the idea of making a profit which may be used to the support of regular municipal services and thereby reduce somewhat the direct tax burden of the localities. So far no definite policy seems to have been developed with reference to the earnings of municipal undertakings in the cities of the United States, but except in a few cities they have not as yet assumed much importance. *Encyclopedia of Social Service*, Vol. XI p. 101.

[1] The imposition of water-rate in the U. P. is, for example, subject to restriction "that the tax is imposed solely with the object of defraying the expenses connected with the construction, maintenance, extension or improvement of municipal water-works and that all money received therefrom shall be expended solely on the aforesaid objects." *The U. P. Municipal* Act, Section 129 (*b*). Similar provisions are found in other Municipal Acts.

what confusing, and there is reason to believe that in actual practice the principles of good account-keeping are being neglected; but there is no doubt that the intention is to render this service at cost; and it cannot, therefore, be operated to add to the revenues of the local bodies.

In order to know whether a business enterprise undertaken by a local body is or is not paying its own way, it is necessary that in its account keeping certain definite principles should be observed. There should be a clear distinction between the capital account and the revenue account. The distinction between the two is not always very easy, and there are marginal cases in which the items of receipt and expenditure can be classified under both heads; but there are accepted principles of classification which the accountants know and use in actual practice. They ought to be used to maintain the accounts of capital receipts and expenditure distinct from those of revenue receipts and expenditure. If this is to be done in the case of water-works, it is necessary that the amount of the money spent on the acquisition, construction, and extension of the water-works plant should, irrespective of the source from which it is drawn, be separately shown. This amount should be treated as capital at charge, and interest on it charged to revenue in order to have a correct record of the expenditure on running the enterprise. For the same reason it is necessary that the amount of the depreciation of the plant should be estimated as correctly as possible, debited to the revenue account and set apart in a special fund for the replacement of buildings and machinery when they get worn out. The repayment of the money borrowed can either be made from the general revenues of the local body or its water-work receipts; but if it is made from the former, it should not, at least for account's purpose, result in the water-works being relieved of a part or whole of their liability on account of interest. Some would go further and maintain that all business enter-

prises—including the water-works—publicly owned and operated—should pay taxes as if they were private enterprises. For accurate account-keeping it would perhaps be desirable to charge the water-works with the amount which the Municipality would have received from taxation of the property in the hands of the water-works authorities if they had been privately owned; but it is a refinement of accounting practice which need not be insisted upon if the question of comparing the results of public enterprise with those of private enterprise is, as in the case of the water-works in India, not of practical importance.

In India, with a few exceptions[1], these principles of account keeping are not being observed in actual practice in the case of the water-works; and it is, therefore, not possible to say how far the enterprise is being managed on a self-supporting basis. The capital expenditure on water-works has been met either out of loan funds or from the grants given by the Provincial Government. Every year a certain amount of expenditure is being incurred on improvements and extensions, but this expenditure is being charged to revenue, and does not involve any interest liable for the water-works. Loans raised in the market or borrowed from the Government have to be repaid and interest paid on them every year; but the interest and amortisation charges are, in most cases, met from the general revenues and the total expenditure on water-supply, therefore, is not the expenditure which ought to be charged to it. The position is made worse by the fact that the depreciation

[1] In the case of the Bombay City Water-Works, the interest on loans is charged to revenue and a certain proportion of the cost of general supervision and assessment and collection is also debited to the same account. In 1939-40 Rs. 52.80 lacs were provided for debt service and there is also a Separate Fund for replacement of worn-out mains and there is a Plant and Machinery Depreciation Fund. In the latter Fund the total amount outstanding in 1939-40 was Rs. 19.39 lacs and in the former Rs. 40 thousand.

funds are not maintained and the importance of charging to the water-works account the amount of depreciation calculated on a scientific basis is not appreciated. The amount charged to revenue every year on account of capital outlay is, in most cases, large and it can perhaps be assumed that it includes the expenditure on renewals and replacement as well on improvement and extensions; but as the two items of revenue and capital expenditure are mixed up together, it is not possible to say that the provision for depreciation is adequate and the plant is being run as a self-supporting undertaking.

The figures of water-supply revenue and expenditure given in the foot-note[1] show the present position. In the case of Calcutta there are no separate water-works receipts as the charge for water is included in the consolidated rate, but in all other cases the water-works revenue exceeds the current expenditure on water-works. Capital expenditure, as explained above, is partly expenditure on renewals and partly on additions and improvements; but if we take the total expenditure, both so-called capital and revenue, we find that in Bombay Presidency and U.P. and Assam the receipts are in excess of the expenditure, while in the remaining cases the position is the reverse; though in the case of Madras City, the C.P., and Orissa, the difference between the two is not considerable. But as the debt charges are not included in the recurring expenditure, the capital accounts are not properly maintained, and there is no proper provision for replacement and renewals, it is impossible to draw any conclusions from these figures as to how far the income and expenditure sides are being equated.

There are two methods of charging for the supply of water. One is the levy of a flat rate for domestic consumption and the other the sale of water on the meter system, the charge depending upon the quantity of consumption. For metered consumption the charge generally varies according to the use to which water is

[1]Table on P. 168.

Water-Works Receipts and Expenditure—1929-30

	REVENUE						EXPENDITURE					
	Water Tax Rs. (lacs)		Sale of Water Rs. (lacs)		TOTAL Rs. (lacs)		Capital Outlay Rs. (lacs)		Maintenance, etc. Rs. (lacs)		TOTAL Rs. (lacs)	
	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40	1929-30	1939-40
Bengal..	12.60	10.45	..	..	12.60	10.45	9.87	5.08	7.38	9.72	17.25	12.80
Bombay Presy.	38.45	37.65	..	..	38.45	37.65	7.02	4.36	15.55	15.83	22.57	20.19
Madras Presy.	15.82	23.27	5.11	..	20.93	23.27	8.47	11.55	17.02	9.01	25.49	20.56
U. P. ..	15.21	20.67	9.91	11.95	25.12	32.62	15.50	6.31	14.25	18.04	29.75	24.35
Punjab..	1.29	1.59	6.62	9.74	8.01	11.33	6.47	5.73	7.61	10.69	14.08	16.42
C. P. ..	7.50	7.48	..	..	7.50	7.48	3.50	7.29	4 70	2.17	8.20	9.46
Assam..	1.25	1.71	..	..	1.25	1.71	.24	.36	1.50	1.23	1.74	1.59
Bihar & Orissa	3.24	..	..	..	3.24	..	.08	..	2.99	..	3.07	..

put, different rates being fixed for different uses. In India generally water-rate is assessed on the annual value of houses and levied at a flat rate for domestic consumption. This method is convenient; but under it, it is difficult to prevent the waste of water which is so common in India. The meter system would provide an automatic check on the waste if it could be adopted, but the objection to it is its cost. Domestic consumption is also generally charged for at a flat rate in America, and England, and the other European countries owing to the initial and recurring cost of installing meters. In Bombay City, Madras, the U.P., and the Punjab receipts from the sale of water are a considerable proportion of their water-supply revenue. The meter system has its obvious advantages and should be extended; but the decision in each case has to depend upon the local circumstances.

Pure water-supply is of such vital importance for the health of the community that the view that it should be regarded as a general service and not a business enterprise can be supported by convincing arguments. But the objection that the large investment of capital and the cost of the maintenance of the works make it impossible to make this service a charge on the general revenues is also valid, but it can be maintained only if the service is charged for at cost price. In Calcutta where water-rate is a part of the consolidated rate, water-supply is a general service for all practical purposes. In the Provinces in which water-rate is assessed on the annual value of houses, there is a relation between the payment made and the benefit derived; but owing to bad account-keeping, it is not certain whether the cost of service is being recovered from the consumers of water. The same is true in the Provinces in which the charge is partly levied on the volume of consumption; but in their case the benefit theory has greater importance. But whether water-supply is to be paid for by the tax-payer or the consumers or whether its cost is to be shared

between the two, it is of importance that the cost of service should be accurately known. Even if water-supply is to be subsidised from the local funds, it is necessary that the proper accounts should be kept because it is important to know what the amount of the subsidy is when it is in the public interest that it should be given. The theory that it should be paid for by the consumers at cost price, which is now supposed to be in operation, is the policy, which is likely to commend itself for reasons of economy and equity as the most expedient course. But the first requisite of sound finance is that the position should be made clear and intelligible by a change in the system of the water-works accounts.

There is a provision in the Local Acts according to which the local bodies can provide public markets or prohibit the use of the unlicensed private markets. The purpose of this provision is to empower the local body to exercise the necessary regulatory control over the markets. They have similar powers with regard to the slaughter houses. But these powers can and are being used by the local bodies to supplement their revenues. The figures of income derived by the local bodies in the different Provinces are given in the footnote[1]. There are two facts which are striking about them. One is that the rural local authorities are not, except in Madras, deriving any revenue from this source, and the other that though the Municipalities have markets of their own in all Provinces, the revenue which they derive from them varies very widely. In Madras, Bombay, the U. P., the C. P., and Assam also the Municipalities have developed their markets but the market receipts in Bihar and Orissa are very poor and in Bengal and the Punjab they are, almost negligible.

There is no doubt that the Provision of markets and slaughter-houses is a function which can easily be administered as an important source of revenue, and it

[1]Table on P. 171.

[1] *Income from and Expenditure on Markets and Slaughter Houses in* 1929-30 *and* 1939-40

	MUNICIPALITIES						DISTRICT BOARDS					
	Receipts Rs. (lacs)		Expenditure Rs. (lacs)		Net Receipts Rs. (lacs)		Income Rs. (lacs)		Expenditure Rs. (lacs)		Net Receipt Rs. (lacs)	
	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40	29-30	39-40
Bombay City ..	11.66	13.06	4.05	8.89	7.61	4.17	..	..	..	..	..	..
Madras City ..	1.25	..	.53	..	.72	..	..	..	..	..	..	..
Bengal ..	1.03	1.01	.79	.63	.22	.38	..	..	..	..	..	..
Bombay ..	10.76	8.36	4.04	3.51	6.72	4.85	..	..	..	..	..	..
Madras ..	9.11	11.86	2.01	2.42	7.10	9.44	4.82	6.64	.37	.70	4.45	8.94
U. P.	5.77	4.97	1.60	.95	4.17	4.02	.16	.24	..	..	..	..
Punjab ..	.82	.83	.50	.59	.32	.24	..	..	..	..	..	..
C. P.	4.05	3.65	1.35	.98	2.70	2.67	..	..	..	..	..	..
Assam ..	1.02	1.38	.34	.16	.68	1.22	..	..	..	..	..	..
Bihar	2.32	1.56	.66	.26	1.66	1.30	..	..	..	..	..	..
Orissa	..	.19	..	.33	..	1.62	..	..	..	..	..	..
Sindh	..	1.95	.33	.01	..	.03	..	..	..	..	..	..
N. W. P. ..	..	.04										

is highly desirable that the local bodies should develop them with a view to increase their resources. But it would be a mistake to regard the net receipts from the markets and slaughter-houses as pure profits from business undertakings. The local bodies have to invest capital in building public markets and incur expenditure on their maintenance, and therefore, a part of their receipts are both rent and profits; but when all markets are either owned by the local bodies or have to be licensed by them, they virtually become a local monopoly which can be used to levy indirect taxation. This is true of all public monopolies, local and national, as it is exceedingly difficult to make a clear-cut distinction between the pure profits of a public enterprise and taxation, for it is easy to so fix the rates as to combine the price and tax elements in the same schedules. "Charging what the traffic will bear" is itself a principle of rate making which introduces elements in the rates charged by the public monopolies which are not included in the ordinary competitive prices. But when the public monopolies are administered with a view to derive large revenues from them, it is not at all easy to say whether the net revenue of such undertakings is or is not taxation. It can be assumed that taxation is an element in that revenue, and in some cases it can be a very important element indeed. The market receipts in Burma, for example, are, from this point of view, partly, and it can even be maintained, mainly tax revenue. "The market dues constitute," in the words of the Burma Municipal Taxation Committee," "a form of indirect taxation to which the people throughout the province are thoroughly accustomed, and to which they have, we believe, no objection whatever"[1]. The people in other Provinces are also accustomed to the market dues, and if they are levied to increase the local revenues, no serious revulsion of sentiments need be anticipated; but the point to remember is that though

[1] *The Burma Municipal Taxation Committee Report*, p. 36.

there is everything to be said for increasing the receipts from markets, it should not be done on the assumption that it would merely be an extension of municipal trading. It will mean increase in the burden of indirect taxation, and when the Sales Tax is levied, it will, in the Provinces in which the markets are and may become an important source of local revenue, have to be administered with due regard to the fact that trade there is already subject to what in effect is a sales tax. That is, however, not a reason against increasing the receipts from the markets and slaughter-houses and making them a more important element in the finances both of the urban and the rural local bodies.

The only other business enterprise, which is individually of any importance for the finances of the local bodies, is the railways. The District Boards in Madras, Bengal and Bihar and Orissa have local railways of their own from the operation of which they are receiving income. In Bengal and Bihar and Orissa the net income of the District Boards in 1929-30 amounted only to Rs. 1.46 lacs and Rs. '65 lacs respectively; but they are more important in Madras, and the net receipts from them in 1929-30 amounted to Rs. 10.52 lacs, and in 1939-40 Rs 21.51 lacs and would have been larger if the Government of India had not put a stop in the extension of railways owned by the District Boards by a change in their policy in regard to the construction of railways by the local bodies. In 1920, according to the Madras Financial Relations Committee Report, 237.22 miles of railways were open and the construction of 784.08 of railways was under consideration[1]. In 1929-30 the District Board railways mileage had dropped to 136.43 owing to the management of some of the local railways having been taken over by the Government of India and the stoppage of further construction. Only the District Boards in Madras were contemplating the con-

[1] *The Madras Financial Committee Report*, 1920, p. 57.

structing of railways to develop both the local areas and their resources; but the adoption of the policy of the centralisation of railway construction and management closes an avenue of the enlargement of local resources which could have been used all over India.

The adoption of this policy by the Government of India has been dictated by all-India considerations and the constitutional necessity of centralising the administration and construction of all railways in India. But the local bodies can, if they are enterprising, make up for the loss of the potential source of revenue by developing motor bus services of their own; and this can be done by the urban as well as by the rural local authorities. A start has already been made in Madras in this direction, and in 1929-30 the motor-service earnings of the local bodies in Madras amounted to about Rs. 52,000. This is a small amount; but in view of the possibilities which motor traffic has in a country like India the local bodies can easily develop this service for providing satisfactory means of transportation and adding to their income. In 1920 the Madras Financial Relation Committee pointed out the importance and special advantage of developing motor service[1]. That was before the extension of District Board Railways came to a stop by the introduction of the new policy by the Government of India. Now that the development of the motor service is not an alternative but the only means of transportation which the local bodies can develop, it becomes all the more important that a well-planned and well-considered programme of developing an organised system of motor-bus and motor lorry services under the management of the local bodies should be adopted.

For the carrying out of such a programme it will be necessary to improve the roads and provide for co-ordination among the different local authorities. But the necessity of adopting a national policy of road devel-

[1] *Ibid* para, 205.

opment is already widely appreciated and the further application of the principles underlying the constitution of the Road Development Fund will involve the systematic development of the local roads. The fact, however, that this course is also desirable in the interest of the local treasury only makes its adoption all the more imperative. Motor-service is pre-eminently suited for being made a local business enterprise. It does not require investment of a large amount of capital. The development of motor traffic by private enterprise, which is inevitable if the local bodies do not make it a public service, will cause wear and tear of roads which will add to their liabilities without adding to their assets. The local bodies by introducing an organised public service will, therefore, be forestalling some difficulties which have already arisen, but the accentuation of which can easily be anticipated. Motor service has, moreover, the advantage of being readily adaptable to local needs and local conditions and provides the local bodies a field for using their own initiative and enterprise. The rapid development of motor traffic, which has taken place in India in the last twenty years, is only a presage of what is coming, and the local bodies will do well to forestall the future and make the administration of a necessary public function a highly remunerative enterprise.

There are several miscellaneous services[1] which have been undertaken by the different local bodies which individually are not very important but which collectively are responsible for a considerable amount of the local revenues. Among them the most common is the provision of rest houses, *serais*, etc., for which the local bodies charge rent. In some cases, as in the Punjab and the U.P., income from rents is fairly large; but in this respect and in several others there are wide variations in the propor-

[1] *Revenue derived from Rent and other miscellaneous items of receipts by the local bodies in the different Provinces in* 1929-30 *and* 1939-40

Table Footnote on Page. 176.

tionate importance of certain items of receipts which are, of course, inevitable but suggest the possibilities of developing resources which are now being utilised in some provinces but not in others, and which can be developed by all Provinces. In the Punjab, for example, the District Boards received from the roadside trees an income of Rs. 2.92 lacs in 1929-30 and Rs. 2.68 lacs in 1939-40. In the other Provinces also the local bodies derive some revenue from this source, but its amount is, comparatively, small. The avenues are a great convenience and enhance the beauty of the countryside; but if aboriculture is undertaken scientifically, they can also bring money into the local exchequer. The sale of excreta[1] is another source of revenue which is fairly productive in some parts of India and not in others, and can be made more productive everywhere. The development of these

	Municipalities				District Boards	
	Rents (Rs. lacs)		Other services Rs. (lacs)		Rents Rs. lacs	Other services Rs. lacs.
	29-30	39-40	29-30	39-40	29-30	29-30
Calcutta	..	..	..	..	..	..
Bombay City ..	9.90	9.07	·62	..	..	..
Madras City ..	..	..	2.69	..	..	..
Bengal	2.13	2.49	1.09	5.12	·13	·10
Bombay	4.95	3.28	10.27	17.03	·07	1.29
Madras	1.02	2.08	4.39	14.82	1.37	8.20
U. P.	8.38	9.36	5.84	21.43	·39	3.70
Punjab	8.25	7.42	7.66	10.03	1.56	·88
C. P.	2.90	1.74	2.79	8.23	·09	·14
Assam	·25	·33	·04	1.99	·04	·05
Bihar and Orissa ..	·47	..	·51	..	·72	·70
Bihar	..	.11	..	.81	..	..
Orissa	..	..	..	.43	..	..
Sindh	..	1.24	..	4.91	..	..
N. W. P.	..	.98	..	1.38	..	..

[1] The Punjab municipalities realised from their service in 1 40 Rs. 1.62 lacs. This is a source of revenue which has to be exploited both in the interest of revenue and that of the supply of

and similar other services will require planning, forethought, and a certain amount of central guidance which ought to be readily forthcoming. The Provincial Governments have been urging upon the local bodies the necessity of doing their best to make them more productive; but it is necessary to do more. The local authorities will, in this, as in so many other matters, need advice, guidance, and even incentive which will have to be provided by the central authorities.

The urban local authorities have special opportunities of increasing their revenue from the remunerative enterprises which they ought to utilise fully. In India, unlike so many other countries, the local bodies have not assumed the responsibility for undertaking services like electricity, tram, etc., or rather have not been allowed to assume this responsibility. This is due, as it has been already stated, to the Government's lack of confidence in their ability to manage such enterprises profitably. The standard of efficiency of our local bodies has not been and is not high; but even if the popular control of local administration is regarded as detrimental to the efficient management of such undertakings, that cannot be urged as justification for leaving this field entirely to private enterprise, before the de-officialisation of the local bodies. Simla[1], which

agricultural manure. It is possible to deoderize human excreta and give it effective treatment from the sanitary standpoint. It is a rich source of organic material and nitrogen and can be utilized to enrich the soil by converting the crude substance into harmless product for use as a manure to enrich the land. The prejudice against the use of such manures has to be reckoned with, but there is no reason to assume that the prejudice will remain an insuperable obstacle in the way of utilization of the waste product, the disposal of which has been ever-present and intractable municipal problem, as a valuable fertilizer and a source of income for our municipalities.

[1] In 1939-40 Simla Municipality derived revenue of Rs. 6.03 lacs from Electricity. In the Madras Presidency, which is a progressive province in this respect, municipal revenue from electric

is one of the very few Municipalities in India which have their own electricity, has presumably been permitted to manage this enterprise itself because its constitution has not been democratised. Before 1921 most of the local bodies were under official control and, therefore, could have undertaken enterprises for the proper conduct of which popular control is considered undesirable. But now, however, we cannot rest the case for municipal trading in India on that assumption. Local administration has already been almost completely de-officialised, and the year to come will present problems of municipal government arising from the ascendency of the popular element in administration. But in spite of that it is necessary to municipalise as many public utility services as possible. It will be necessary to consider carefully the problems of management of business enterprises. The local bodies will, in the future, be required to assume new functions and discharge the old ones with full appreciation of their importance from the national standpoint. It will be desirable to devise arrangements by which the entire local administration is made as business-like as possible, but this, of course, is absolutely essential in the administration of business enterprises. Their municipalisation should not result in their being made pawns in the political game or in-

licence schemes amounted to Rs. 16.75 lacs, and net revenue to Rs. 1.75 lacs. The Municipalities are, in some cases, ready to go ahead in this respect. In 1936-37 10 municipalities in C.P. applied to the Provincial Government for licences for the supply of electricity, but as the item does not yet appear as a source of revenue in municipal report of the C. P., it can be presumed that this application was turned down. The same year, i.e., in 1936-37, Raipur Municipality in the C. P., was advised to sell its electric undertaking to a private concern. The standard of administration in the Municipality does not, it is true, inspire confidence in their capacity to manage such enterprises, but this lack of confidence is due as much to the lack and will on the part of the Provincial Government as to the inherent limitations of municipal administration in India.

volve any falling off in the standard of their administration.

In order to exclude politics from the administration of municipal utilities, it will be necessary to provide for the administration of these services on semi-autonomous basis[1]. That object can be achieved in a number of ways, but if the administration of public utility services is removed from so-called political sphere without involving any sacrifice of the popular interests, the particular form of administration can be varied to suit the local circumstances and the peculiar conditions of the service itself. The form which is now in favour with those who are advocating socialisation of the essential economic services is some form of public corporation which, while providing for the necessary measure of popular control, leaves the actual management in the hands of experts who are given free hand to use their own judgment and experience within the limits set by the necessity of guarding against the bureaucratic tendencies of all experts. In India we will have to study the various alternative methods of administering these services; but if we bear in mind the limitations both of the politicians and the experts, and the need of extending the sphere of municipal trading and maintaining the standard of its administration at a high level, we should be able to develop forms of organisation which will enable us to have public utility services which will be both efficient and productive. Municipalities cannot, in this matter, be left to solve their own problems. The development of municipal utilities will have to be stimulated and guided from the centre, but the local bodies will have to make their own contributions to the common pool of ideas and the actual administration of

[1] In Germany, where municipal enterprises have attained a high degree of development and are an important source of income, revenue yielding enterprises are conducted by special laws and are run as business undertakings. Vide Maxwell, *Contemporary Municipal Government of Germany*, pp. 91-93.

the services will, of course, have to be carried on by them.

The services which can be municipalised will more or less be determined by the nature of the services. In the near future a programme of municipalisation, which will include lighting, trams, motor services and perhaps milk-supply[1] of the towns, ought to meet the requirements of the situation. To these has to be added another service which has to be made a municipal undertaking owing to the need of adopting a comprehensive and well-thought-out scheme of town development all over the country. This matter will have to be dealt with later at greater length, but it is referred to here because for carrying out any scheme of town development, it will be necessary for the Municipalities to extend their holding in land. Municipalities have, in the past, been very short-sighted in this respect. They have, very seldom, gone in for land exploitation, and even in the towns like Calcutta, Bombay, and the U.P. towns in which the Improvement Trusts have acquired land for the execution of their schemes, land, instead of being held by the local bodies, has been sold outright after development. In the other towns the Municipalities own some land and generally administer the escheated crown property called *Nazul* lands. But even they have been selling parcels of land

[1] In Chapter VIII of the Report on the Marketing of Milk in India and Burma a very strong case has been made for the creation of milk-marketing organization in urban areas to improve the quantity and quality of milk in towns. There is no reason why such an organization, which should be semi-autonomous, should not be a municipal organization if due regard is paid to the consideration of efficiency in administration. If the estimate of the Report that supply of pure milk can be assured to a population 2 lacs by a capital outlay of Rs. 4.5 lacs, which is expected, without raising consumers' price, to yield a net return of 10 p.c., is correct, there is very good case for this organization being financed entirely by the municipalities and operated, as suggested, as a semi-autonomous public enterprise.

from time to time and have, thereby, alienated the interests of the coming generations.

This has been, in some cases, done on a scale which has meant a serious loss. In the opinion of the Madras Financial Relations Committee the solvency of local bodies in Madras would, by this time have been assured if the exploitation of land by local bodies had been steadily encouraged since the local self-government was first introduced in that province[1]. The same is probably true of the other Provinces. In 1929-30 in the Bombay Presidency Rs. 4.00 lacs were realised from the sale proceeds of lands and receipts from this head appear in the accounts of the local bodies of the other Provinces as well. The sale of lands by the Municipalities cannot be prohibited altogether, but it should be a very rare occurrence and they should, as suggested above, initiate and execute schemes of land-development. This is the easiest way of appropriating unearned increment for public purposes though this is not the only way, and is not to be regarded as the primary purpose of undertaking schemes of land-exploitation. It is, however, one of the most promising methods of a well-regulated development of the towns[2] and their resources and ought to be made a common feature of municipal finance in India.

The methods of financing local business enterprises cannot be discussed here. Most of the capital required for developing them must necessarily be found by raising loans. But in America special assessments have also been used for providing capital for the municipal utilities. "Theoretically", says a writer who is very well qualified to speak on the subject, "it is quite proper, and practically it is a matter of well-established policy

[1] *The Madras Financial Relations Committee, Report*, 1920. para. 198.

[2] In Madras separate Town-Planning Funds are already being maintained and the Municipalities are receiving some income. But even there the development scheme is in its infancy and everything remains to be done. In 1939-40 the municipal receipts under this head amounted to Rs. 33 thousand and charges Rs. 36 thousand.

to levy special assessments"[1] upon lands deemed to be specially benefited by any public utility enterprise. These public utility facilities are really, as pointed out before, local improvements which confer special benefits upon particular properties and, therefore, can and ought to be partly, if not wholly, financed by levying special assessments.

[1] *The Administration of Municipality Owned Utilities* by Dr. W. F. Wilcox, p. 25.

LECTURE VI

LOCAL REVENUE—GRANTS-IN-AID

Contributions from the higher to the subordinate public authorities have, as shown elsewhere[1], become an outstanding, and perhaps the most significant, feature of public finance in a large number of countries.[2] They have become an instrument of the financial readjustment rendered necessary by the stress of economic facts and also perhaps by the impact of new political ideals. In the sphere of politics they are still at an experimental stage, and it will take some time before their theory and practice square with the facts of a rapidly

[1] Vide, *The Essentials of Federal Finance* by Gyan Chand, pp. 176, 186.

[2] By way of illustration figures of the increase of grants in England and Wales. Since 1915 may be given:—

	£ *Million*
1915	23.2
1918	6.3
1919	28.9
1920	45.6
1921	60.6
1922	74.1
1923	72.1
1924	73.6
1925	76.1
1926	78.9
1927	81.1
1928	76.0
1929	85.9
1930	138.7
1931	135.7
1932	126.6
1933	131.8

In 1934 47.2 of the total revenue of local bodies in England and Wales was derived from grant-in-aid only 52.8 p.c. from taxation, *i.e.*, local rates *vide* Mable *Newcome Central Local Finance in Germany and England*, p. 207.

changing world. But in the sphere of local finances the grants-in-aid have already acquired an assured place and are likely to grow in importance with the passage of time. Sydney Webb has called grants-in-aid a characteristically English device which, in his opinion, is the pivot on which the administrative machine really works[1]. That is true in a very large measure, but even in England the profound importance of these contributions is not fully appreciated, and it is not clearly understood that they are the means by which multiple unity of the State can be consciously realized. But clear thinking is not the strong point of the English people, and its absence does not change the fact that they have stumbled upon this device, and thereby avoided, as Sydney Webb rightly points out, the extremes of local anarchy on the one hand and local atrophy on the other. In the U.S.A. also, which has been cited by Sydney Webb as the most glaring instance of anarchy of Local Autonomy, federal and State conditioned aid, which, of course, is another name for grants-in-aid, has, in the last four decades, become a very important factor, which is being used there, laboriously, and not always successfully, as the only available method of evolving some sort of order out of the existing chaos.[2] There is no doubt that the grants are the most effective method of finding and maintaining the working mean between the extremes of centralization and decentralization, which, as pointed out in the introductory chapter, is the urgent need of the times.

These are more or less speculative considerations, which are important and interesting but cannot be pursued further here. They have, however, some bearing on the practical aspects of the grants-in-aid because they show why they are being used so widely in the sphere of local finance. The Departmental Committee on

[1] *Grants-in-aid*, Sydney Webb, p. 3.

[2] *Special Report of the New York State Tax Commission* No. 3.

Local Taxation of England has specified three distinct functions of the grants-in-aid. They are the method by which the nation (a) contributes its own share towards the cost of semi-national services; (b) remedies inequalities in the incidence of local taxation; and (c) effectively supervises the administration of semi-national services[1]. The Departmental Committee was, in elucidating the functions of the grants, of course, explaining their rôle in the working of the system of local finance in England. But this analysis can be applied with advantage to other countries as well, because the conditions which make the grants inevitable and important arise from the same organic and universal fact of the growing integration of the life of every nation. This fact makes each local area a vital constituent unit of the integral whole whose needs and means are determined by the entire organic life of the people. Their needs become more clamant and pressing because their adequate satisfaction is of as much importance to the country as to the local areas, and their means lose their well-defined character because of the difficulty of marking them off for the purpose of allocation.

Personalty is now everywhere almost exempted from local taxation owing to the difficulty of assessment, but the more important reason for this exemption is that it cannot be equitably assessed for local purposes, i.e., to use Lord Goschen's words once more, income cannot be localized.

The result is that realty has either both in theory and practice or, in practice if not in theory, to bear most of the burden of local taxation; and as the relative importance of personalty and realty varies from one local area to another, that leads to inequality in the incidence of local taxation and the growing disparity between the needs and the means of the local authorities—dis-

[1] *Report of the Departmental Committee on Local Taxation*, 1914, p. 56.

parity which can be removed or mitigated only by drawing upon the common pool, i.e., by developing a system of grants-in-aid. The payment of grants from the national exchequer or, to use the more difficult but also the more familiar phrase, consolidated fund gives to the central authorities a pull over the local authorities which they have to utilize to stimulate local initiative and enlist local co-operation for the carrying out of schemes which must be nationally conceived and locally executed if they are to be fruitful and beneficial to the utmost limit of their possibilities.

The necessity of combining the national conception and local execution of all schemes of social betterment also makes the distinction which has so often been made between the 'national or semi-national' or 'onerous' and the 'local' or 'beneficial' services for the administration of grants practically valueless, if not absolutely invalid. There are a few services which are generally assigned to the local authorities and which can be regarded as purely local in the ordinary sense of the word. The provision of the local Town Hall or the local orchestra can, as Sydney Webb points out in his book, be made exclusively a charge on the local revenues. But in the case of all important services the nation has a predominant interest in their efficiency, and it is against social well-being to let the limitations of local resources determine the level of attainment in any particular local area, the more so because the limitations are generally due more to the exigencies of the economic system as a whole than to the poverty of the area itself. It is the breakdown of local economy which has changed fundamentally the essentials of all problems of the common life of the people, including the problems of local finance. The services like education, health, communications and, of course, police are primarily national in character and important in the sense that the nation has to ensure conditions favourable for their efficient administration and provide adequate safeguards against the backward

or necessitous areas not rising up to the national minimum of efficiency. But the administration of these services cannot be centralized on that account. Local initiative and enterprise are the more important because they have to respond to a common urge and express a common purpose. But it is no use assessing the relative importance of the national and the local interest in the administration of any one of these services and making this assessment a basis of financial adjustments between the central and the local authorities. An assessment of this kind can only be based on fictions and not facts, and is bound to create baffling complications.

If the above view is correct, it necessarily follows that the only basis on which the grants-in-aid can be fairly administered is the basis which takes into account both the means and the needs of the local areas. The Minority of the Royal Commission on Local Taxation of 1901 suggested the allocation of the grants according to 'necessity' and 'ability'[1]. They recommended that the necessary expenditure and the actual and the potential income of each local body should be estimated and the difference between the two made up by contribution from the consolidated funds. This is the only basis which can meet the requirements of the situation. There should be both what may be called the 'means' and the 'needs' tests; and what the local authorities cannot afford should be provided from the common purse of the nation. The grants can also be given on other bases, but all of them cannot but be unsatisfactory. Their allocation according to the revenue or the expenditure or expenditure on any particular object can only accentuate the differences between the different local authorities, because it makes the rich richer and the poor relatively poorer. To add more unto those who have

[1] *Report of the Royal Commission on Local Taxation* (England). Minute by Sir Edward Hamilton and Sir George Murray, p. 133.

is an unsound principle of public finance, and though it is taken to derive its validity from the principle of helping those who help themselves, it overlooks the cardinal fact, that the local authorities which cannot 'earn' larger grants because their own contributions are small, have not got the capacity to help themselves, even if they have the will, and it is wrong to penalize them on that account. The device of 'proportionate' grants, which is so very popular in many countries, the device of what the Americans call 'matching dollar for dollar', is, therefore, wrong in principle both from the standpoint of equity and economy. The Geddes Committee of England has called it "a money spending device". It puts a premium more on extravagance than on efficiency, and does not recognise the limitations inherent in the facts of the situation. The distribution of grants on the basis of population or area can be a partial recognition of the factor of needs; but as this is not the only element which determines needs, they too can be a source of anomalies and inequalities. The only basis which can be regarded as 'scientific'[1] is the basis which, as remarked above, enables the local authorities to meet the necessary expenditure by having their own resources supplemented by what must in essence be equalization grants. Grant-in-aid should really be a levelling up device by which each local authority has to contribute according to its capacity and receives according to its needs.

In India, the grants-in-aid have been growing in importance in the last thirty years and specially the rural

[1] The necessity of administering grants on the 'equalization' basis is being driven home into the minds of all who realise their true function in public finance. A somewhat long extract from the Report of Citizens' Committee on the finances of Pennsylvania is given in Appendix XX. That will show how the conclusions, allowing for difference in circumstances, of the Pennsylvania Committee are not different from the principles laid down in Cmd. 3134 or the recommendations of the Central Advisory Committee referred to a little later in this Chapter.

local authorities have come to depend upon them for a very large proportion of their income.[1] The increasing dependence of our local authorities on the contributions from the provincial funds does not as pointed out already signify an attempt on the part of the central authorities to 'buy' the right to exercise supervision over the administration of the local services, because in the pre-1921 decade, and more so in the post-1921 decades, the Provincial Governments have relaxed their powers of control over the local authorities. The increase of the grants has, as a matter of fact, taken place at a time when the local self-government has, for the first time, come to its own. The increase of the grants-in-aid during this period of widening political freedom has, therefore, to be taken as an inevitable result of the necessity for enlarging the resources of the local authorities. The Provincial Governments have not only had to invest them with larger powers, but also place at their disposal funds to use those powers for developing the local services.

The necessity for supplementing the resources of the local authorities will continue to exist in the future,

[1] The statistics of grants and their proportion to the total revenue of the Municipalities and District Boards from 1894-95 to 1939-40 are given in the Appendices XVIII and XIX. The grants of the Municipalities have not increased as rapidly as the grants to the District Boards, but even in their case they have increased from Rs. 12.00 lacs in 1894-95 or 5 per cent. of their total revenue to Rs. 101.61 lacs in 1929-30 or 13 per cent of their total revenue. But since 1921 period their relative importance has decreased though their absolute amount has increased from Rs. 88.76 lacs in 1920-21 to Rs. 101.61 lacs in 1929-30. The grants to the District Boards have increased from Rs. 24.24 lacs in 1895-96 or 9 per cent. of their total revenue to Rs. 631.50 lacs in 1929-30 or 42 per cent. Since 1929-30, however, the position has changed for the worse, in this respect owing to the Provincial Governments having adopted the policy of reducing the grants. In 1939-40 the municipal grants amounted to only Rs. 50.58 lacs out of the total revenue of Rs. 1004.91 lacs or nearly 5 p.c. and the grants to the District Boards to Rs. 483.52 lacs out of the total revenue of Rs. 1375.20 lacs or 36 p.c.

for with the utmost development of their own resources they cannot expect to have adequate funds for the full development of their services. The Provincial Governments cannot possibly reverse the process and reduce the powers of the local bodies. But they have to make use of the grants to achieve clearly defined objects of policy and administration. They have, in the first place, to see that the local bodies do not fail to develop their own resources. Self-help is essential for self-government; and though owing to the working of modern economic forces it is not possible to make each local body responsible for raising all the money that it needs, the principle of self-help does not become any the less important on that account. The Provincial Government will, therefore, have to make use of the grants for stimulating self-help. But this ought and cannot be the only or the most important object of their grants-in-aid policy. That object must, as it has been made abundantly clear, be the equalization of opportunities and resources. But it is the necessary incident of that policy that the local bodies should be guided by national consideration in the administration of their services. They should, of course, maintain the national minimum of efficiency, but more important than that is the necessity of evolving, formulating, and adopting common policies. For that central co-ordination is more necessary than central control. It is not always easy in practice to distinguish between control and co-ordination; but there is a distinction between the two which is well understood and can be made operative principle of the relations between the central and local authorities. The grants are not the only method of providing or promoting co-ordination. Conferences, Joint Committees, *ad hoc* Standing Committees, Administrative and Advisory, for specific services and central departments which have, for some purposes, to be the nerve-centres of the system of local administration, have all to function as organs of co-ordination. But the grants can

also be so administered as to fit in with the needs of a system for the efficiency and success of which local initiative and national purpose are equally essential. The Provincial Governments have now to develop the system of grants-in-aid on the basis of the assessment of means and needs; but in assessing both they have to appreciate the effect of national factors on the resources and requirements of the local authorities. The system, in other words, has to be consciously used as a device for pooling resources, ideas, and needs so that local self-government may, without impairing its autonomy, gain in effectiveness and unity of purpose[1].

The present position in India in respect of the grants-in-aid is not satisfactory though since 1921 there has taken place some improvement in the policy of the Provincial Governments. Education grants are the

[1] As a result of the Local Government Act, 1929, the financial relation between the Central Government and the local authorities in England underwent a radical revision. The system of grants was, completely overhauled. The principles which the Government considered should characterize a proper system of grants-in-aid were set forth in a White Paper in the following terms:—

A proper system should:—

(*a*) recognise that a fair contribution should be made from the Exchequer towards the cost of local services;
(*b*) ensure that local authorities have complete financial interest in their financial administration;
(*c*) be adapted in its working to the needs of the local areas;
(*d*) permit the greatest administrative initiative;
(*e*) provide for sufficient general control and advice from the Central Department to ensure a reasonable standard of performance. Vide Para. 16, *White Paper on Local Government Act*, 1929 (Cmd. 3134).

The system of grants introduced under the Act of 1929 has been rightly conceived, but its underlying principles have not been applied to all the grants and even those which are being administered on the new basis are going through a process of transitional readjustment which is intended to be spread over a period of seventeen years, upto 1947.

most important of all grants, and with regard to them there has been a change of policy which, though it has not been introduced in all Provinces or fully carried out in any one of them, shows the increasing acceptance of the view that the measure of these grants to local bodies cannot possibly be the allotments of funds from local revenues for education. Grants are given both for secondary and elementary education; but it has, for a long time, been admitted that the local bodies cannot be expected to find money for both and the policy of relieving them of responsibility for secondary education has been adopted by several Provinces though the local bodies are still maintaining secondary schools all over India. But for these schools they generally receive grants according to the ordinary rules, i.e., the secondary schools maintained by the local bodies receive grants like the other aided schools. But with regard to elementary education, the principle of helping the local bodies according to their needs is being more and more widely accepted and "instead of the Government Grant being limited by its relationship to the sums which may be provided from local funds, the financial liability of the local bodies is limited and the grant from Government is determined not by the amount contributed by local sources but by the educational needs of each area.[1]" In Bombay, the United Provinces, and the Punjab the local bodies are now required to find a certain fixed amount for education, usually expressed as a percentage of their revenues, while Government makes itself liable, so far as its resources permit, for all additional educational charges.[2] Elementary education is not a service semi-

[1] Grants-in-aid to school in British India. *Bureau of Education Report* No. 12, p. 19.

[2] The principle according to which the grants were being given by the Provincial Government in Burma to the District Councils is explained in the following words in their memorandum to the Simon Commission.

"The principle on which these contributions were calculated

national but a national service, and not only the Provincial Governments but also the Government of India have a right and a duty in the matter. The local bodies are utterly incapable of making adequate provision for elementary education; and it will be necessary for the central authorities to adopt a national policy and mobilize national resources if this crying need of the nation is to be satisfied.[1] The steps taken in some of the Provinces to make needs the basis of the distribution of grants for elementary education constitute a change in the right direction which will, however, have to be carried

was that normal receipts of each local fund and the normal annual payments under each head which continues without alteration to be head of expenditure of the local funds, were estimated from the accounts of the old funds for a series of years. Where the creation of the new local bodies, or the provisions of law relating to local self-government on authoritative directions of Government made new expenditure or a different standard of expenditure necessary, the new and altered expenditure was estimated under each head. The ordinary provincial contributions to each heads were the amount, if any, by which the normal and necessary annual payments of the local fund exceeded its normal receipts." (*The Simon Commission Report*, Vol. XI, p. 438).

[1] The Report on the Post-War Educational Development in India (1944) provides for free and compulsory education for all children between the ages of 6—14 and for the estimated recurring expenditure of Rs. 200 crores per year. Expenditure on the scale is obviously beyond the resources of the local and even provincial authorities and grants from Central Funds for the purpose would be unavoidable if the scheme is to be put into effect. "It is impossible to forecast at this stage," says the Report, "what forms the future arrangements for financing a national system of education will take. That they will require a drastic change in the existing system is obvious and substantial assistance from central source will be forthcoming is extremely probable. The assistance may take the form of block grants for approved schemes for a period of years....but whatever form it takes....it will be equitable to "weight" the formula adopted in the interest of those Provinces whose own revenue-producing capacity is below average."

The view expressed in this authoritative report is in line with the argument developed in the text and has to be earnestly commended.

much farther before we feel assured that the right policy has been adopted for the provision of the elementary education.[1]

This change of policy, however, has not taken place in every Province. In Madras, Assam, Bengal, and Bihar and Orissa no fixed principle seems to have been adopted for the distribution of education grants. Grants are given for specific purposes, and according to criteria which may be sound in themselves but are not part of a comprehensive or well-considered policy of providing for the education of the masses. Grants according to the number of the pupils, the qualification of teachers or the scale of their salaries or in proportion to the expenditure can all be justified; but the reasons which

[1] In 1922 the Central Advisory Board of Education made the following recommendations for the consideration of the Provincial Governments:—

(1) That Government should by legislation, if necessary, take measures to ensure a minimum expenditure on elementary education in each area; that this minimum and the proportion thereof to be met respectively from provincial and local funds should be determined by Government after careful consideration of the financial and educational needs and circumstances of each area and the claims of local services other than education;

(2) That additional expenditure on elementary education above this minimum by local bodies should be encouraged by proportionate grants from Government and for the purpose of calculating proportion, districts should be graded according to their needs and means.

These recommendations suggest two considerations besides those of means and needs which are important. One is that in assessing the financial needs of a local area for any one service, the claims of the other local services have to be taken into account, and the other that after the minimum has been provided for, contributions from Government should be proportionate to the contributions from local bodies. The first consideration is of practical importance because it suggests the need of estimating and providing for all requirements of the local bodies. As regards the other, all that is necessary to say is that the provision of the very minimum will require the use of our entire resources, both national and local, and it is not necessary to elaborate rules of the apportionment of expenditure after the minimum has been attained.

can be given to justify them do not include the reason to which every other should be subsidiary, i.e., the reason that the prime need of the nation is that every local area should be provided with means for putting into effect a programme of educating the masses in a definite period. Something can also be said for the device according to which the Government contribution for education is determined by the receipts from the additional taxation for educational purposes. The Education Cess in Madras has been levied more widely than it would have been, if its levy had not carried with it the prospect of Government matching a rupee of grant for a rupee of receipts from the Education Cess. But the grants-in-aid policy cannot be exclusively or mainly based on this principle. The cardinal fact of the situation is that the financial capacity of the local bodies is in itself very unequal, and it is of paramount importance that the general development of the country should not be hindered because of this disparity. The conclusion is, of course, the same again, i.e., the grants-in-aid should vary in direct ratio to the needs and inverse ratio to the means.

In respect of the grants for public health, medicine, and communications,[1] certain developments have taken place which are to be welcomed. There has been a tendency to relieve the local bodies of expenditure on the more important hospitals and stimulate them to promote public health by preventive methods. Health schemes

[1] The post-war scheme for road-development of the Government of India is estimated to cost Rs.400 crores and envisages a system of National Highways, Provincial roads and District and Village roads with a view to bring every village within half a mile of public road and provide a net-work of roads according to a well-co-ordinated scheme of road development under a Central Road Board and with generous assistance from Central Funds. The execution of this scheme will, like the scheme of educational development, necessitate drastic changes in the existing financial arrangement and wide extension of grants-in-aid.

have been introduced and health officers, whose salaries or the major portion of whose salaries are charged to the provincial revenues, have been appointed. In some Provinces roads have been classified, the arterial roads provincialised and the salaries of the district engineers made a charge on the provincial funds. All this is an indirect recognition of the principle of needs. Provincialisation of functions and posts is not the right method of getting over the difficulties of local administration, and ought to be resorted to when complete centralization is absolutely necessary; but provincialisation of the posts of the officers, who have to administer local services, is a method of adjusting means to needs and has for that reason a special significance of its own. But all these are make-shift devices and ought to be replaced by a carefully worked-out scheme of grading local areas according to their means and needs, and distributing grants according to the position of each area in the scale. It is necessary to launch a scheme of all-round development of social services. For the efficiency and success of this scheme the whole-hearted co-operation of the local bodies is absolutely essential; but this co-operation should not be limited by the extent of the local resources. The fullest development of the local resources will, of course, be the necessary condition of and proof of local co-operation; but the scheme must be national in its scope and involve the utilization of the national resources to the greatest advantage. It should be the function of the grants-in-aid to provide the means for the execution of the scheme of national development through the agency and with the co-operation of the local bodies.

The adoption of the principle of the distribution of grants referred to above will make their administration very much simpler. The system of grants for a local service as a whole or the system of block grants, as it is called, will be substituted for the system of allocated

grants.[1] The grants will continue to be conditional, but will be calculated for the service as a whole and not with reference to any special aspect of the service. The system of block grants will, however, not exclude the use of grants for specific purposes so long as they have a subsidiary place in the system of grants-in-aid. The Provincial Government having provided for the administration of local services up to the required standard of efficiency can adopt the principle of proportionate grants in specific cases to promote special objects and purposes. But block grants must, as remarked above, be the rule and specific grants the exception.

Grants-in-aid have, it is clear, to become even a more important factor in the finances of the local bodies than they are now. They have, if the needs of economy, efficiency, and equity have to be realised in their working to be based on sound theory and administered with a due appreciation of their effect on the working of the system of self-government and the development of social service. There is need and room for a great deal of experimentation in the practical application of the theory that the grants have to be a function of 'necessity' and 'ability'. "From each according to its capacity and to each according to its needs" sounds very well and may even be accepted as a maxim which the facts of modern life make the only sound principle of public finance if not of the social system as a whole, but it is not easy to ensure that each will give according to its capacity and will get according to its needs and no more than its needs. In other words, it is not at all easy to work out a formula

[1] The distinction between the system of Block and Allocated Grants may be explained in the words of the Departmental Committee on Local Taxation, 1914. The 'Allocated Grant' System, according to them, 'consists in making grants towards specific branches of a service' and in the 'Block Grant' System 'the grant is not made in respect of any particular item or branch of service, but in respect of the whole service.' *The Departmental Committee on Local Taxation Report*, para. 64.

which gives us dependable criteria of means and needs and provide safeguards against the local bodies being 'pauperised' by a system of 'doles'. In the administration of grants, therefore, we will have to provide for a great deal of flexibility and continuous adjustment to a rapidly changing, and, it may be hoped, developing situation. A stereotyped system of grants-in-aid simply will not be appropriate and ought not to be introduced.

LECTURE VII

LOCAL LOANS

Excessive borrowing is generally regarded as a common failing of the local authorities all over the world, and there is no doubt that there is ample justification for the prevailing belief that left to themselves the local authorities are sure to overstrain their credit and let themselves in for overwhelming financial difficulties. The U.S.A., again affords another illustration of anarchy of local autonomy. The financial history of the American local bodies is full of cases of reckless borrowing and consequent defaults and repudiations; and it is a fact that this gross financial mismanagement has, to a very large extent, been due to the American theory and practice of 'home-rule' or complete autonomy in local self-government. The same tendency has been at work in other countries but has not produced the same results because of the statutory and administrative restrictions on the freedom of the local authorities to mortgage their future. The experience of all countries points to the necessity of not letting the local bodies alone in the matter of borrowing.

The local bodies in India have in the past not been let alone in this as in all other matters of local administration. They have all been subject to the Local Authorities Loans Act of 1871, of 1879 and of 1914. These three Acts were passed in succession to regulate local borrowing and enable the Government of India to exercise supervision over the administration of local debts. There were and are also special provisions on loans in the Acts governing the constitution and working of the Presidency Corporations and the Port and Im-

provement Trusts. The result of central regulation of borrowing has been that local indebtedness in India has not grown in the way it has in other countries, and the present position of the local bodies, viewed from purely financial standpoint, is quite satisfactory. This is not an unmixed good; and there is truth in the charge, which has often been levelled against the Government of India that they have retarded the progress of the local bodies by imposing an unduly conservative debt policy upon them. The development of local areas could and should have been accelerated by adopting a more enterprising programme of local borrowing. That, however, does not change the fact that the financial position of the local bodies in India is sound so far as their indebtedness is concerned. The retarded development of the local bodies, which we have inherited from the official regime, is a very heavy liability that has to be met in the near future; but howsoever annoying the fact may be, there is at least this satisfaction that we are heirs to an undeveloped but not an encumbered estate.

In countries in which the local bodies have been exceedingly imprudent in their loan policy, they have generally succumbed to the temptation of winning the favour of the local voter by carrying out schemes of development which added little or nothing to his tax-burden. This lure, however, did not exist in India owing to the absence of popular control of the local bodies. But even then local credit could and probably would have been unwisely used if the Government of India had not, at the very outset, realised the necessity of exercising control over the growth of local indebtedness. The existence of local bodies involved a considerable degree of administrative decentralisation even when it did not mean the creation of self-governing institutions. The Provincial Governments and the controlling officers of the local bodies could, if they had been given independent borrowing powers, have been exclusively guided by local considerations in initiating and developing

their loan policy, would have bid against one another in competition for the liquid funds of the community and borrowed for purposes for which the use of public credit would be undesirable under any circumstances. Decentralized borrowing would not have given rise to the evils of the same magnitude as those that have arisen in the self-governing countries; but it would, nevertheless, have been a source of confusion and waste. It is very unlikely that the Provincial Governments would have followed a more enlightened or far-sighted policy of developing local areas if they had been empowered to borrow more freely. Lack of enterprise was due to the lack of imagination and the lack of a sense of identity with the ultimate good of the people which characterized the administration both of the Central and the Provincial Governments in India. The only result of decentralized borrowing would have been lack of co-ordination without any compensating advantage.

The following table shows the present position of the local bodies in respect of their indebtedness and its growth since 1881-82:—

GROWTH OF LOCAL INDEBTEDNESS SINCE 1881-82

	Presidency Corporations and Trusts	*Municipalities*	*District Boards*
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
1881-82	55.95	38.26	11.09
1894-95	77.77	15.92	.65
1909-10	746.42	248.47	21.24
1920-21	814.27	303.63	64.23
1929-30	2345.40 (1927-28)	463.28	228.68
1939-40	2903.94	485.25	172.04

This table contains only the figures of the amounts borrowed by the local bodies from the Government. Municipalities and District Boards have been permitted

to borrow from the public on very rare occasions, and the amounts in the above tables indicate almost their total indebtedness. The Presidency Corporations and Trusts have raised large loans in the open market from time to time, but even in their cases the Government loans have been more important than the debenture loans and the above amounts are a fairly correct index of the relative importance of their borrowing operations, if not of their total indebtedness. These figures speak for themselves. The increase of indebtedness since 1921 period shows the effect of the new forces and the urge for development which are to be welcomed. But it also shows that the popular control of local bodies will in India, as in other countries, create a demand for extensive use of public credit which can and ought to be beneficial but may be harmful. Its use as a device for avoiding the necessity of levying additional local taxation will have to be provided against; and it will also be necessary, in view of the fact that our capital resources are extremely limited and we have to make the most of them, to incorporate schemes of local development in a programme of all-round national development. We have to forge ahead; but in order to get the best results, we must have an order of precedence and a well-considered plan of development. Local borrowing must, therefore, be instinct with national purpose.

Under the Local Authorities Loans Act, 1914, and the various Special Acts, the local authorities are permitted to borrow for (a) the construction of works; (b) the giving of relief and the establishment and maintenance of relief works in times of scarcity or famine; (c) the prevention or the outbreak of any dangerous epidemic disease; (d) the acquisition of land; and (e) the repayment of outstanding loans. In other words, the local authorities can borrow for permanent improvements, emergencies, and discharge of their existing loan liabilities. The theory of these provisions is that any capital expenditure, which cannot be met out of the current revenues, can and ought to be met from the bor-

rowed funds. In the Acts referred to above no distinction is made between the productive and unproductive works, though in granting loans or sanctioning their flotation the Government is, it may be presumed, guided by the object for which the funds are required in fixing or approving the terms of the loans.

The most important objects for which the local authorities in India have borrowed from the Government or the public are water-works and drainage. The Improvement Trusts' loans were, of course, raised for the execution of the schemes of slums clearance and development. The local authorities have borrowed for markets and slaughter-houses and in recent years also for electric schemes. Loans have been granted to them in some cases for the construction of office buildings, schools, and hospitals. The construction of roads has been financed mostly from the general revenues and the grants-in-aid, though in some cases the loan funds have been used for the purpose.[1] District Boards in Mad-

[1] Detailed figures of loans raised for the various objects are not available for all Provinces, but the figures for Madras may be taken as an illustration of the position in respect of local loans: The Madras figures are given in the following table:—

	Items	*Amount outstanding at the end of* 1929-30 Rs. (lacs)
1.	Office buildings	1.32
2.	Roads, culverts, and bridges	5.37
3.	Electric lighting	26.65
4.	School buildings	2.99
5.	Hospital buildings	.28
6.	Water-supply and drainage	59.90
7.	Markets, etc.	9.51
8.	Survey	.94
9.	Town extension	4.79
10.	Loans to Building Societies	2.12
11.	Other purposes	2.07
		113.94

ras were granted loans by Government for the construction of railways, but as further extension of railways by the District Boards has been stopped and in one or two cases their management has been taken over by the Government of India, the increase of local indebtedness on this account cannot take place.

If India is to embark upon a programme of development and loans have to have a role of their own in the execution of this programme, it is a matter of considerable importance to formulate clearly the principles of borrowing by the local authorities. There is not and cannot be any difference of opinion as to the desirability of financing the capital expenditure on remunerative undertakings. There is no objection on principle to using the current revenues for such enterprises. The local authorities can very well, if they have abundant surplus over and above their current needs, devote their resources to the acquisition of revenue-earning enterprises. That will be a good investment for them. But the local authorities are nowhere in the happy position of having at their disposal funds in excess of the amounts needed for their current expenditure; and in India there is not even the remotest possibility of their being able to have large investments in their own undertakings without starving their vital services. It may, therefore, be assumed that the right policy for financing the capital expenditure on local, commercial or quasi-commercial enterprises will be borrowing.

There also is or cannot be any difference of opinion that recourse to borrowing for meeting current expenditure should, as a rule, be avoided. Local authorities may be permitted to raise short-term loans for carrying on their administration in anticipation of the accrual and collection of their ordinary revenues; but such loans should not remain outstanding for more than a few months and must be repaid out of the general revenues on maturity. In other words, it should be an accepted maxim of local finance that deficits ought to be avoided,

and when they occur in spite of the utmost care in the management of finances, as they must in some cases, they may be met from temporary loans which should be quickly redeemed by the levy of the additional taxation or the adoption of the measures of economy. Local authorities, like the Central and Provincial Governments, may have to borrow because their receipts at a particular time fall short of their expenditure. That may, as a matter of fact, be taken as a normal feature of the finance of the local bodies. Their taxes, like those of all public authorities, are collected periodically and their expenditure is continuous. The excess of expenditure over income is bound to occur in some months of the year, and local authorities must either have sufficient cash balances or resort to short-term loans. The maintenance of balances for the purpose is desirable up to a certain point, but it will not be an unsound practice even for the local authorities to do what the central authorities do as a matter of ordinary Treasury routine, viz., to rely on temporary advances for tiding over such deficiencies of revenue. But these exceptions only emphasize the importance of the general rule that borrowing for meeting current expenditure is wrong in principle and ought not to be resorted to.

Between the two extremes of all borrowing for the capital expenditure of the remunerative or self-supporting enterprises and no borrowing for the current expenditure there is a large debatable ground—to borrow or not to borrow? What is current expenditure or rather what items of expenditure can be rightly charged to the current revenues? The expenditure on a school building, town-hall or roads is ordinarily regarded as capital expenditure, and it is generally taken for granted that it is wrong to charge it to the revenues of the year in which it is incurred. But why is it wrong? The expenditure is extraordinary in the sense that a local area, once it has built itself a town-hall or some other public building, is not likely to be called upon to erect another

building for the same purpose for several years or may be decades. It may, therefore, be convenient to meet such expenditure from the borrowed funds, pay interest and repay capital from the revenue and redeem the loan in a short period. If that is done, it merely involves an extension of the principle that the gap between the current needs and the current income may be temporarily bridged by borrowing. The fiscal year is after all an artificial and arbitrary division in the life of a local body, and if it is right to borrow in June 1943 in anticipation of the revenue collections of October 1943, it cannot be wrong to borrow in 1943 in anticipation of the revenue of 1943-53, when certain requirements have to be met and the revenue to meet them is not in hand. It is merely device for attaining a better equilibrium between the income and expenditure over say a decade. If this view is taken as correct, borrowing by a local authority to defray an extraordinary expenditure of this kind may be regarded as a legitimate use of public credit provided the liquidation of the loan is not unduly delayed.

This view, however, rests on the assumption that the local authority concerned will not have to incur similar expenditure during the currency of the loan. But in a progressive, dynamic community development has to be a continuous process and the need for carrying out permanent improvements an ordinary feature of its organized corporate life. The expenditure on such objects may not be current but is recurrent, and though it has a wider range of fluctuations than the ordinary expenditure of a local authority, it cannot be regarded as extraordinary if we are not to, as we ought not to, take the fiscal year as a self-contained unit not for accounting purposes, but for the purpose of having a sound financial policy. In India this consideration is of special importance. The fullest development of the local services is really the most important part of the national reconstruction, and as that cannot be carried out at a

stroke or in a short period of time, the development of these services will necessitate improvement of and addition to the physical equipment of the local bodies, from year to year. Drainage works, sewers, school buildings, health and welfare centres, and roads have all to be constructed and will require enormous capital outlay for which funds cannot possibly be found in a year or even a decade. To treat this expenditure as extraordinary and raise loans for meeting it, will involve assumption of a static order when the very possibility of our launching a programme of this kind depends on the community of being able to respond to a tremendous dynamic urge from within. Development expenditure, therefore, cannot be regarded as capital expenditure in the ordinary sense of the word. It is the very best kind of national investment, but its dividends are incalculable, not only because the expenditure is enormously beneficial but also because its return cannot be allocated. That is so in every country; but in India where the future is our only asset, the local authorities cannot afford to go on borrowing for these needs which are sure to be as constant as they are urgent, without incurring the risk of insolvency.

This places us on the horns of a dilemma. The local authorities cannot depend exclusively or mainly on loans for equipping themselves with the requisites of a progressive life, but they also cannot stand still. They cannot possibly afford to put off the duty of liquidating disease, ignorance, and stagnation or rather the nation cannot afford to let them put it off any longer. But there is absolutely no chance of their being able to defray the entire or the bulk of the capital expenditure necessary for a satisfactory development programme from their general revenue. The expansion of services will increase their recurring expenditure and any expansion of revenue, that may be realized by the development of their resources and their more efficient administration, will all be needed for keeping pace with the growth

of recurring expenditure. There does not seem to be any way out of the difficulty except that the bulk of their capital expenditure on development should be provided by the central authorities. The Provincial Governments are already giving grants for capital expenditure. These capital grants will have to be much more fully developed; and though it would be inadvisable even for the Provincial Government to make use of loans for meeting this liability as a matter of ordinary practice, borrowing for this purpose by the Provincial Governments should not be ruled out altogether. The United Provinces Government floated a Development Loan some years ago, the proceeds of which were used for 'unproductive' expenditure. The Government of India disapproved of the policy of the United Provinces Government and pointed out that the use of borrowing powers for unproductive expenditure was against the letter and the spirit of the rules under which the Provincial Governments were empowered to borrow under the Government of India Act. The United Provinces Government not only committed a technical offence, but also followed a policy which was intrinsically wrong because they spent a very large part of the Development Loan not for developmental but for decorative purposes. But a Development Loan need not necessarily be wrong under all circumstances. It may be right and even necessary to borrow to speed up the carrying out of a programme of development, the completion of which may otherwise be unduly delayed. But this power must be sparingly used for, as pointed out above, in India development is not, and for a long time will not be, an extraordinary but an ordinary activity of our local and central authorities and ought, as a rule, to be a charge on the ordinary revenues of the Government.

The necessity of levying special assessments for developing local resources and financing some of the commercial undertakings has been stressed already in the previous chapters. Here it is, however, necessary

to state that for the execution of schemes which are to be partly or wholly financed from the proceeds of special assessments, the use of loan funds will also be necessary. Special assessments are generally levied in instalments, because the entire cost of improvement cannot be recovered from the owners of the benefited property in one lump sum. The interval between the inception of the scheme and the recovery of its cost from the property owners makes it necessary for the local authority to provide itself with funds from some source to carry out the scheme of improvement, and as such schemes generally entail heavy expenditure, it is necessary to raise loans for meeting the outlay until the amount is realized from special assessments. The use of loan funds in this case is legitimate inasmuch as it is another case of the use of public credit for anticipatory purposes. Special assessment will have to be very widely used in future, and that will necessitate resort to loans for the execution of schemes of development.

But whether development is financed from taxation, loans, grants or special assessments, it will be necessary to have a well-defined scheme of development for each local authority and for all local authorities taken together. Development of the local areas is going to be a very big undertaking and can only be carried out if the policy and methods of its execution are thought out well in advance. Now the Provincial Governments consider the applications for loans from the local authorities from year to year, and though in some cases the loans are granted in instalments, the practice of having a long-term programme of capital expenditure has not been adopted or even considered necessary. This is a short-sighted and wasteful policy. If we are to make the most of our limited resources and adhere rigidly to the policy of satisfying the essential needs of our national life before we turn to the non-essential ones, it is absolutely necessary to have a long-term financial programme and well-ordered sequence for the carrying out of the schemes

of development. Each local body must, with the help of the experts, who may have to be provided by the Provincial Governments, draw up a five or ten-year programme; and it ought to be one of the most important functions of the Local Government Board, which, as suggested later has to be constituted to co-ordinate and regulate the activities of the local authorities, to correlate this local programme and have a provincial plan of development. This plan must, as a matter of necessity, be flexible and be changed from year to year if there is a change in the circumstances under which it has to be carried out. But there ought to be a plan and a programme of development based on a careful consideration of the capital needs of the local authorities and their relative importance and of the funds available for satisfying these needs. We have been, in the past, living from hand to mouth in the matter of development. We must, in the future, have a well-considered programme for accelerating the pace of progress and having a comprehensive and sound borrowing policy for the local authorities and the Provincial Governments.

At present the Government of India and the Provincial Government exercise effective control over the loan policy of the local authorities. Municipalities and District Boards generally borrow from the Provincial Government[1], though in a few cases they raise loans from the public also[2]. The Presidency Corporations

[1] Since 1889 there has been maintained in each Province the Provincial Advance and Loan Account from which the Government makes advances to local bodies and other borrowers. The funds from which these loans were made until 1921 were treated as being provided by the Government of India from their balances, for which the Provincial Government had to pay interest. Since the 1st April, 1921 the entire responsibility for financing the Provincial Loan Account has been transferred to the Provincial Loan Account.

[2] The relative importance of the amounts borrowed from the Government and the public may be gauged by the fact that in 1929

have borrowed large amounts in the open markets, but the object, the amount, and the terms of the loans have in all cases to be approved by the Provincial Governments and when the amount exceeds Rs. 25 lacs also by the Government of India. In the Acts governing the constitution of the Calcutta, the Madras, and the Rangoon Corporations there are statutory limits[1] as to the amount of the debt charges which include charges on account of interest and repayment of loans. These Corporations cannot raise loans if their debt charges are in excess of the statutory proportion of the annual value of their assessable property. The loans accounts of all local bodies are audited by the Government auditor[2] and the Government generally scrutinizes the local budgets in order to ensure that adequate provision has been made therein for the payment of interest and the repayment of loans.

The maintenance of control over the borrowing powers of the local authorities has its justification in the necessity of providing safeguards against the abuse of public credit which can arise so easily if the local authorities are given complete freedom to have their own loan policy, and it is desirable that even in the future most of the restrictions which are now imposed on the borrowing powers of the local authorities should continue. But it is doubtful whether anything is to be gained by having mechanical statutory debt limits on

Municipalities and District Boards borrowed Rs. 56.75 lacs from the Government and Rs. 5.67 lacs from the public, and of Rs. 5.67 borrowed from the public, Rs. 5.18 lacs represented the loan raised by one municipality, *viz.*, Karachi.

[1] In the Calcutta Municipal Act the limit laid down is 10 p.c. of the annual value of the assessable property, in the Madras City Municipal Act 12½ p.c., and in the Rangoon Municipal Act, 13 p.c. The futility of prescribing these limits is commented upon a little later.

[2] In the case of the Bombay City the Government has the right to appoint an auditor for examining all Corporation accounts, including the Debt Account, but has not exercised this right.

their power to raise loans. The device of fixing a proportion between the taxable wealth of local bodies and the amount of their debt has been very widely used in the U.S.A., but the evils of indiscriminate borrowing by the local authorities have not been remedied on that account[1], and it ought to be obvious that fixing an arbitrary limit like that which we find in the Presidency Corporation Acts referred to above cannot serve any useful purpose. The amount of loans which a local authority can safely raise without overstraining its credit may have some relation to its total revenue, but cannot be determined merely by the value of its assessable property. The ability of a local authority to pay interest and repay capital depends upon the purpose for which it borrows, the assets which it creates by its capital expenditure and the general management of its finances. A debt limit which applies uniformly to loans raised for commercial enterprises, roads, office buildings, and parks cannot but be arbitrary and valueless. In America the States exercise very little control over the borrowing of the local authorities, and had, therefore, to devise some rule-of-thumb, and make-shift device for curbing their tendency to borrow recklessly. The futility of this method has been established there; but in India if we continue to have administrative supervision over the loan policy of the local authorities, and each loan proposal is examined with reference to its object, its relative utility compared with the other proposals which may be in the field and the general financial position of the local authority concerned, the potential evils of indiscriminate local borrowing need not arise in India.

The period for which the local loans are allowed to remain outstanding at present varies but does not exceed sixty years, and generally is less. There cannot be any general rules as to the length of the period during or in which a loan must be repaid. The anticipatory

[1] *Public Borrowing* by Paul Studensky, pp. 50-67.

loans must, of course, be repaid when the revenue, in anticipation of which they are raised, is collected; but in other cases the period must be fixed in each case with reference to the object and terms of the loan and the state of the money market. Loans raised for financing the commercial undertakings may, it is not necessary to state specifically, remain outstanding for a longer period than the loans raised for other purposes. It can be argued that in the case of the commercial undertakings, if proper provision is made for interest charges and depreciation, loans may be allowed to remain outstanding indefinitely. But probably it will be a sounder policy to make, as suggested below, the redemption of loans raised for the commercial enterprises a charge on the revenues of the enterprises themselves and fix a long period for their redemption.

There are various methods of repaying public debt. But of these three are more commonly used. The first is liquidation by the provision of the sinking fund. A certain amount is set apart every year and invested in some form of approved securities. Interest accruing from the investment is also invested so that the original amount grows at compound rate of interest. The amount which is invested every year is determined by the period of the maturity of the loan and is so fixed that the total amount invested during the period together with the amount of accrued interest from investments equals the amount which falls due at the maturity of the loan. The other method is the system of what is called the terminal annuities. According to this method the investors or the creditors get back their capital and receive interest on their investments in a series of equated payments which consist both of interest and capital, but the capital element in which increases and the interest element decreases as the loan gets progressively liquidated. And the third method of repayment is the system of serial bonds, the issue of which is so arranged that a certain proportion of them mature every year and the loan is

thereby repaid in a certain number of fixed instalments, the interest, of course, being paid on the outstanding bonds.

In India the first two methods are being used for the repayment of local loans. For loans from the public, the sinking fund method is commonly used and the Government loans are generally repaid in a series of equated payments, their amount depending upon the period for which the loan is granted. The only objection to the sinking fund method is that the local authority at times cannot resist the temptation of raiding the fund or 'borrowing' from it, as the act is sometimes euphemistically called, to ease the strain on its general, revenues. This contingency has been adequately provided against under the various Acts, because the sinking fund securities are held in trust for the local authorities concerned by some officers of the Government, generally the Accountant General and the Finance Secretary, and the value of the securities in the fund is revised from time to time; and if their market value is less than their face value, the local authorities are required to reimburse the difference. The method of equated payments evenly distributes the burden of the repayment of the loan, and the local authorities cannot evade the liability unless the Government grants them temporary suspension in view of some exceptional circumstances. Both methods, therefore, ensure the repayment of the loan according to well-defined principles and are equally satisfactory for the purpose. If the view expressed below that the local authorities should, as a rule, borrow from Government is correct, the method of equated payments will have to be used even to a greater extent than it has been in the past.

There is one point which is of great importance in connection with the question of the repayment of loans; but which has not received any attention so far. The point is that it ought to be decided as to whether the redemption of debt should be a charge on the general

revenue of the local authorities or whether the debt of the remunerative enterprises or the 'productive' debt of the local authorities should, even when it is raised on the security of rates and taxes, be repaid out of the revenue of the remunerative enterprises concerned. In India the question has not been of practical importance because the local authorities have very few remunerative enterprises. But in the case of the water-works and the markets and slaughter-houses, the two most important quasi-commercial enterprises of the local bodies in India, not only the interest but also the sinking fund charges and equated payments are thrown on the general revenues of the local authorities. There are a few exceptions. In Bombay, for example, the interest and sinking fund charges are debited to the water-works and the markets and slaughter-houses accounts in proportion, of course, to the amount of municipal investment in those undertakings. But generally these items of expenditure are charged to the general revenues of the local authorities.

This practice has arisen owing to the local bodies not distinguishing between the capital and revenue accounts. Depreciation funds have not been instituted and proper provision is not made for meeting the interest and repayment charges. We are here, however, concerned only with the question of the repayment charges. Should they be debited to the general revenues or the revenues of the enterprises? Answer to this question depends upon the policy which commends itself as suitable in a particular case. There can be no objection to a loan being redeemed out of the general revenues of a local authority provided the interest due on the amount is charged to the enterprise even when the loan has been completely liquidated or even if the amount is not so charged, at least the amount chargeable is known so that the amount of subsidy from the general revenues to the enterprise may be correctly calculated, for not charging interest on the

capital expenditure on an undertaking amounts to subsidizing to the extent to which it is relieved of its interest liability. But generally speaking each business undertaking should not only be liable for interest and depreciation charges but also provide its own redemption fund. The question as to whether on the extinction of the loan, the benefit of relief from the interest charge should go to the general tax-payer or the consumer of the service will depend on the policy which the local authority wants to follow in a particular case. It can either continue to charge the users of the service the same rates and draw contribution from the earnings of the undertaking in aid of the general fund or reduce the rates and let the user of the service have the benefit of being able to buy it more cheaply. But in either case the redemption of the loan from the revenues of the undertaking will give us not only a self-supporting enterprise but also an enterprise which will liquidate its own liabilities. If this course is followed, the rates during the currency of the loan will have to be high enough not only to cover the maintenance, interest, and depreciation charges, which must, of course, be covered in any case, but also the redemption charges. There may be cases in which it would be inadvisable to raise the charges in order to provide for the redemption of the loan. But even when that is the case, it ought to be known how far the enterprise is being assisted from contributions from the general revenues. But the general policy should be to let each enterprise be both self-supporting and self-liquidating. That will be good accounting, good business and also, in most cases, good finance.

The local authorities, stated above, generally borrow from Government and the Presidency Corporations have large public loans. Even if the local authorities borrow from Government, the latter has to borrow from the public. The issue, therefore, is not between borrowing and not borrowing so far as public authori-

ties as a whole are concerned, but between borrowing by one authority rather than by the other. The only argument for direct borrowing by the local authorities from the public can be that they can thereby tap certain reserves which cannot be tapped by the central authorities. The Provincial Governments have, since 1921, been given independent powers of borrowing and have exercised them to a certain extent. But their experience proves the unsoundness of the contention that there are certain reserves which can only be drawn upon for public borrowing if the authorities subordinate to the Government of India make their own arrangements for raising their loans[1]. No hidden reserves of capital have been brought to light by their independent borrowing, and its only result has been that they have had to borrow at a higher rate of interest than they would have paid if they had borrowed only from the Government of India.

In India, the market in which the public authorities can borrow is limited. There is need for mobilising the capital resources of the community, but that can better be done by centralized than by decentralized borrowing. But for the development of the capital resources of the country the development of the banking system and the provision of facilities for the small investors are more important than public borrowing. Centralized borrowing will be more economical and also have the advantage of enabling the country to turn its capital resources to the best account. It has been suggested elsewhere that there ought to be constituted a National Loan Council[2] which should be in charge of the entire borrowing operations of the public authorities and have a programme of development based on a comprehensive survey of the needs and resources of the country. Each Provincial Government should apply to the Loan Council for loans

[1] Gyanchand, '*The Essentials of Federal Finance*.' pp. 294-97.
[2] Ibid, pp. 300-03.

and receive its annual allotment from it according to its needs, the availability of funds, and the importance of its requirements compared with the importance of the requirements of the other Provinces.

For each Province, however, there should be, as there is now, a Provincial Loan Account, which should be self-supporting and operated by the Local Government Board. The different local authorities should apply to the Board for loans every year and the Board should, in granting loans, be guided by the considerations on the basis of which the Loan Council itself will grant loans to the Provincial Governments. The Provincial Loan Account should be financed by the Provincial Governments from borrowed funds and their cash balances, and its incomings and outgoings should be incorporated in the general financial operations of the Government. Borrowing by the local authorities from the public should not be prohibited; but recourse to it should be permitted when it can be clearly demonstrated that that course has some distinct advantages of its own.

The conservative policy, which the Government of India have so far followed in the use of public credit, has been good finance but bad public economy. In future the National Government will have to adopt a bolder loan policy in the interest of accelerating the material and social development of the country. The local authorities will share in the benefits of the new policy and set up a much quicker pace of development and progress. But as has been stressed already, the use of loans for the social development of the country, though perfectly legitimate in itself, ought to be only a second string to the bow, the first being the development of the tax and non-tax resources of the country. The very scale of development necessitates our passing a self-denying ordinance on ourselves, for the full development of our tax resources will call for a very large measure of self-denial. But for the development of our non-tax resources we will have to resort to more extensive

public-borrowing. It would, however, be a mistake to ban borrowing for social development ' altogether. There may be cases in which borrowing for financing capital expenditure on some scheme of development may be urgently called. A very good case can be made for making use of the loan funds for school buildings for the introduction of a scheme of universal primary education within a very short period of time[1]. But each case has to be considered on its own merits and reckless, indiscriminate borrowing has to be carefully provided against.

[1] If the programme of educational development outlined in the Sargent Report costing Rs. 312.60 crores per year on education as a whole and Rs. 200 crores on primary education is to be carried out, enormous capital expenditure would obviously be inevitable. In the Report the need for breaking 'the vicious circle' is stressed and use of loan funds or capital resources for making a good start strongly advocated.

LECTURE VIII

LOCAL EXPENDITURE

In theory the local authorities in India have very wide powers and can exercise many functions; but in practice their capacity to contribute to or develop the well-being of the people is strictly limited owing to the want of funds. The expansion of their resources is the primary condition of the expansion of their services and has had, therefore, to be dealt with at some length. The proposals made in the preceding chapter should, if they are given effect to, enlarge their revenues. It is not possible to estimate in advance the extent to which the proposed changes will improve their fiscal position; but that it will be considerable does not admit of any doubt. But howsoever considerable it may be, it cannot be adequate for the needs of the local bodies. They are charged with functions the full development of which will really amount to the reconstruction of our whole national life, and that, once we embark upon it, is going to be an immense undertaking and call forth every ounce of energy that we have and can mobilize. There is no prospect, it has been already stated, of our being able to have the necessary resources to attain in the near future the level of development which even the least ambitious amongst us will consider the very minimum which we ought to aim at. We have to do our very best and for the rest bank on hope; but what is really important is that if the nation can spur itself to the effort necessary for making a concerted onslaught on ignorance, ill-health, and inertia, it will have to rise to heights which will make the limitations of resources appear a less serious difficulty than it would otherwise

be. The very preparedness to attack the problem in right earnest in the face of the stupendousness of the task, will bring into being reserves which will give us self-confidence and assurance that the difficulties are not insuperable. These intangibles are not money but are good money-making devices when we need money for providing conditions for the re-birth of the nation.

The difficulties, however, will not vanish; they will have to be surmounted, and since an undertaking of this sort must essentially be national in its scope and meaning, we will have to harness all agencies for carrying it out. Dissipation of resources owing to the lack of a proper division of functions or effective co-ordination must be prevented, and all public authorities, central, provincial and local, have a definite place in this drive for national regeneration. This can best be done by considering the problem as a whole and making 'essentials first' the guiding principle of public policy and administration. It is not easy to secure complete unanimity as to what the essentials are; but there is not and cannot be any difference of opinion that public health and education must have precedence over the other needs of the community in the allocation of public revenues. Money for making a satisfactory provision for these two needs cannot possibly be found merely by the development of the local resources. Development of all public resources is an imperative necessity and an essential condition for the success of a programme of national reconstruction. But the point with which we are concerned here is that the local bodies by themselves cannot assume responsibility for launching this enterprise and will need guidance and assistance from the central authorities; and since their resources are and will be limited, it is a matter of primary importance that they should be charged only with those functions for the administration of which their co-operation is necessary, and a fair proportion of the expenditure on which they may be able to meet from their own resources.

The proportion of expenditure which the local authorities can be expected to find from their own funds for any of the services assigned to them cannot be very large if the full expansion of those services is to be provided for. The Hartog Committee estimated the total expenditure on the introduction of the compulsory and free primary education at Rs. 19.5 crores[1]. Elementary education is only one of the services the need for the development of which is urgent. Public health, which should include the expenditure on the improvement of the towns and villages, is another need of the community which simply must be provided for much more adequately and will, of course, require immense amount of expenditure. Education and public health between themselves involve an amount of expenditure which will not only strain the resources of the local authorities but also of the whole nation, and it will, as stated above, be absolutely necessary to mobilize the resources of the whole community to do anything effective for accelerating the progress of the country.[2]

[1] Vide *the Hartog Committee Report*, Chapter XIV, Section III. How very meagre this estimate was has been shown by the estimated recurring annual expenditure on elementary education in the Sargent Report to which a reference has been made already. It is, as stated before, not possible for the Provincial Government to find Rs. 200 crores needed for the purpose. The amount cannot be found, at all, as stated in the Sargent Report, "without all-round development of national resources through a rational expansion of industry on the one hand and improvement of agriculture on the other". This, of course, means that provision for free and compulsory education for all must remain an unattainable ideal without modernization of our economic life and its utmost development through comprehensive economic planning. But if full reconstruction of our economic life can be carried, the cost of providing free and compulsory and universal elementary education will have to be a charge on national resources and will be beyond the means of local authorities.

[2] As it is very large proportion of the educational expenditure charged in local budgets is really being met out of provincial funds.

This argument, of course, reinforces the conclusion that the fullest development of the so-called local services has to be made a charge on the entire national resources; but it also points to another, and that is that it is no use distinguishing between the obligatory and the optional functions of the local authorities and making the lists of both unduly long when we know for a fact that for the discharge of their very elementary duties, they will need assistance from the central authorities on a very liberal scale. Local authorities are now responsible for numerous duties, but for the want of funds they do not, as it is very well known, perform any of them with any degree of efficiency. They are now expected to provide both for the secondary and elementary education, though there has been a welcome tendency during the last two or three decades to relieve them more and more of their expenditure on secondary education. They have their own hospitals and are encouraged to devote a part of their resources to the introduction of schemes of sanitation and public health; and in this case also there has been at work the tendency to relieve them of their expenditure on medical relief and emphasize the importance of promoting schemes calculated to prevent rather than cure diseases. They maintain both the main and the local roads, and the Provincial Governments have been either increasing their grants for the maintenance of the main roads and in some cases taken them over from them and made them a charge on the provincial revenues. They are, of course, responsible for conservancy, drainage and water-works and carry out many miscellaneous functions like stock-breeding and veterinary relief. They are at liberty to devote their funds

In 1939-40 out of the total educational expenditure of Rs. 717.16 crores charged in local budgets Rs. 420.57 was covered by provincial grants. That is more than four-sevenths of the local educational expenditure is already not a charge on local revenue and the proportion is bound to increase when the task of providing free elementary education for all is seriously taken in hand.

to anything which is likely to contribute to the comfort, convenience, and general well-being of the people.

The tendencies referred to above to make the local authorities primarily responsible for primary education, preventive medicine, and local roads shows a trend which has been forced upon the Provincial Governments and the local authorities by the logic of facts and has to be more fully and consciously developed. The question is more of expediency than of principle. Local authorities in other countries are responsible for the maintenance of the police, the hospitals, the secondary schools and in some cases even the colleges and the universities. Even in those countries the need of a larger degree of co-ordination has made it necessary for the central authorities to assume powers of supervision and control over the administration of these services, but the question of the re-allocation of functions has not become there a matter of practical importance. In India the situation is different. The social services here are almost, if not entirely, undeveloped. Funds for the development of these services are exceedingly limited and their inadequacy is specially acute in the case of the local authorities. We have to make the most of every penny that we have, and in the development of these services we have to press into service, it may be repeated perhaps for the twentieth time, our entire actual and potential resources. It is, therefore, necessary to devise an arrangement under which the local authorities may take their place in this comprehensive,all-embracing, and co-ordinated national effort to get started on a career of rehabilitation and progress. To bring matters to a successful issue it is essential that each agency of national reconstruction should have specific functions and discharge them to the utmost limit of its capacity and according to a well-considered and well-defined scheme.

It is suggested that the above object can best be achieved by relieving the local authorities of all expenditure other than the expenditure on primary education,

public health as distinguished from medical relief and purely local roads, and the tendency, which has led, almost forced, the Provincial Governments to assume responsibility for the other functions, should be carried to its logical conclusion. The development of these three functions will give the local authorities full scope for the exercise of local initiative and enterprise and make it necessary for them to draw upon all their reserves of energy and civic ardour. These are the services for the development of which the co-operation of the local authorities is essential and cannot be carried out unless local interest and knowledge are mobilized and placed at the disposal of those who will have to be at the helm of affairs in the direction of the supreme national effort to make the country conscious of its possibilities and give it the determination to realise them. These services are both essentially national and local in the sense that they cannot be satisfactorily provided for unless the nation collectively and the local authorities severally are fired with a zeal and determination to strive for their fullest development.

In 1928-29 the local authorities spent Rs. 3.95 crores on education from the local funds. These are old figures but can be used for illustrative purpose. This amount was spent as follows :—

Local Expenditure on Education in 1928-29

	Rs. (lacs)
Direction, Inspection and Buildings, etc.	67
University Education	3
Secondary Education	75
Primary Education	242
Special School	8
Total ..	395

It will be seen that the local authorities were spending about two-fifths of their total educational expenditure

on objects other than primary education, and this amount can be practically saved and utilized for primary education if the only educational charge on the local revenue, as it ought to be, is the direct expenditure on primary education. The amount spent on buildings for primary schools must, of course, be reckoned as expenditure on primary education, and whether their cost should be charged to the local or provincial revenues is a point about which there cannot be laid any general rule; but most of the non-recurring expenditure on education will have to be met from the provincial funds and possibly from the receipts from loans raised by the Provincial and Central Governments. But as regards the remaining non-primary educational expenditure there can be no question that it ought to be charged to the provincial revenues. There does not seem to be much sense in regarding the local authorities as the agencies for the introduction of schemes of free and compulsory primary education and undertaking to contribute from half to two-thirds of the expenditure involved from the provincial funds (as is the case in most of the Provinces) when about two-fifths of the existing educational expenditure of the local authorities is being incurred for purposes other than primary education. It will simplify the administration of grants if this re-allocation of functions is made and the local authorities are definitely relieved of the duty of providing for education above the elementary stage.

Inspection ought to be a function of the Provincial Government. It is so even now and the Government expenditure on inspection in 1928-29 was Rs. 95 lacs and that of the local authorities only Rs. 7 lacs. Of the Government expenditure, of course, only a part was spent on the inspection of the primary schools, but the fact that the ratio between the provincial and local expenditure on inspection is 13·1 shows the predominant position of the Provincial Governments in this sphere. The inspectors employed by the local authori-

ties are only nominally under their control. They have to carry out the orders of their departmental superiors and perform their duties according to the rules laid down by the Provincial Education Department. This is as it should be. Inspection is a supervisory function and all supervisory functions should be assigned to the Provincial Governments and made a charge on their revenues.

The local expenditure on university education consists of a number of items, but of these the two important ones are the expenditure of Rs. 1.62 lacs on the medical college maintained by the Bombay Corporation and Rs. .45 lac on an intermediate college by a municipality in the Madras Presidency. Seth Gordhandas Sundardas Medical College, Bombay, has an endowment, but the Corporation is spending the above amount on its maintenance. The number of medical colleges in India is known to be very small in relation to our actual needs, though the supply of doctors, as the supply of all professional men, has outrun, apart from the emergency need created by the war, the effective demand of their services. But the primary duty of the Corporation is, or at least should be, to improve the sanitary conditions of the city and prevent the avoidable loss of life that is even more appalling in the Bombay city than it is in most other parts of India. With a rate of infant mortality of 316 per mille, the death rate of nearly 30 per mille and some of the worst slums in the world, Bombay is spending Rs. 1.62[1] lacs on medical education of about 200 students when the same amount could be spent on combating disease and improving the

[1] Since 1929 there has been some improvement in mortality in Bombay. The death rate for 1939 was 26.3 per thousand and rate of infant mortality 211.7 per thousand. The total expenditure on Medical College was Rs. 2.62 lacs in 1939 and then expenditure on each student was Rs. 331. The Bombay corporation is the most progressive municipal corporation in the country, but still a lot remains to be done for the improvement of public health of its citizens.

sanitary conditions of the town. The amount, it is true, is a very small fraction of the total expenditure of Bombay, and the Corporation is spending more than Rs.40 lacs on its Public Health Department, but even then it is wrong to spend this amount on maintaining a medical college when there are so many crying needs which cannot be attended to for lack of funds. This is only an illustration of how very necessary it is in India to act upon the maxim of "essentials first" in the allocation of local expenditure. The same considerations hold good in the case of the Municipality in Madras which is maintaining an Intermediate Arts College of its own.

The expenditure on special schools is incurred on institutions like Arts Schools, Normal Training Schools, Technical and Industrial Schools. It also includes expenditure of Rs.2 lacs on adult education to which not only no exception can be taken, but which has to have a very important place in any scheme of mass education. But the remaining expenditure of Rs. 5 lacs ought not to be a charge on the local revenues. The objects for which the amount is spent are all highly desirable from the national standpoint and the amount spent on them from the provincial revenue was Rs. 1.04 crores, more than twenty times the amount spent from the local revenues. This amount can be increased many times over and still it will not be adequate for the needs of the country; but the point which is being urged here is that the expenditure of Rs. 5 lacs for these purposes from the local revenues involves unnecessary overlapping of functions and can easily be avoided by provincializing all the special institutions which are now being maintained by the local authorities. They are the institutions which require superior management if they are to be efficient, and ought also, on that account, to be under the direct control of the Provincial Governments. There is everything to be gained by transferring these charges from the local to the provincial funds. This will release

funds for primary education and bring home to the local authorities the vital importance of concentrating their attention on the fullest possible development of mass education.

By universal consent provision for compulsory primary education is the most urgent need of the community. At present out of over 6 crores children in the age group 5-14 age about 1.20 crores are reading at the primary stage. But it is also recognised that a drastic reorganisation of the system of elementary education has to precede the introduction of compulsion, because, as the Hartog Committee has pointed out,[1] to compel pupils to attend or to stay in the present inefficient school would involve unprofitable expenditure and add to the enormous waste which is already taking place. This qualitative and quantitative improvement in the output of primary schools is a stupendous task for the carrying out of which the nation has to equip itself. It is not a task which the local authorities cannot be possibly expected to discharge without aid from the Provincial and the Central[2] Government. But it is evident that if they are made responsible only for primary education, they will need all the resources that they have at their disposal or can develop and also all the assistance that they can get from the central authorities; and, therefore, their being relieved of all other educational duties will only result in the proper allocation of functions and avoid their unnecessary overlapping.

[1] *The Hartog Committee* tR*eport,* Chapter IV, para, 102.

[2] It has been suggested elsewhere that the Government of India should grant subsidies to the Provincial Governments for financing schemes of mass education. This is, for reasons which need not be given here, the best method of making contributions from the central exchequer to the Provinces on the population basis, and will have the advantage of facilitating the implementing of national policies in the actual working of the system of education in the different parts of the country.

Vide Gyanchand, "*The Essentials of Federal Finance,*" p. 722.

The suggestion has the support of commonsense and the facts; and it is very easy to put it into effect.[1]

In the sphere of public health there is the same overlapping of functions. The Provincial Governments and the local authorities are both providing medical relief.[2] The main hospitals are being administered and financed by the Provincial Governments, but the local authorities are also spending considerable proportion

[1] In the Sargent Report the policy of handing over administration of education in lower stages to local bodies has been very severely criticized and it is stated that before embarking on their reconstruction programmes the Provincial Governments should resume all educational powers from local bodies. This view has been and can be fully supported by citing the dismal record of local bodies in the administration of education. The charges of incompetence, irresponsibility, ill-treatment of teachers, nepotism and other forms of graft, to which the Report makes a pointed reference, are justified by the facts of the case, and it is essential to remedy these evils if the scheme of the post-war educational reconstruction is to yield the expected results. But if the remedy, however, involves the relieving of local bodies of all responsibility in matters of education, it is not certain that the remedy will not prove worse than the disease. If the local bodies cannot be trusted to have a share in the administration of education, they will also have to be relieved of the functions in regard to public health and communications; for the importance of those subjects is not less than that of education from the national standpoint.

It has been duly stressed in the text that there is need for unity of national policy and co-ordination in the sphere of education, but the success of the post-war educational reconstruction will depend as much upon local knowledge and interest, as upon central direction, co-ordination and, of course, financial assistance. At present local bodies are not, as a rule, competent to discharge any important public function, but one of the most important tasks ahead is to raise the level of administrative efficiency and honesty of these bodies. To relieve them of all important functions is the counsel of despair and not the way out of the existing difficulties.

[2] In 1939 there were in the country 5,650 hospitals, out of which 4,195 were supported by local bodies, 566 by the Provincial Governments and 889 were private-aided. In 1939-40 the municipalities spent Rs.2.30 crores on hospitals, etc., and the District Boards Rs.2.20 crores or Rs. 4.50 crores in all while the total expenditure of the Central and Provincial Governments on hospital and public health was Rs. 5.82 crores.

of their total public health expenditure on the maintenance of hospitals, which though nominally under the administrative control of the local authorities, are practically managed by the Provincial Medical Department. There has been, as stated already, tendency to take over some of the more important hospitals from the local authorities and make them a charge on the provincial revenues, but still there is a great deal of confusion of policy and practice and medical relief is still regarded a function and in some Provinces an obligatory function of the local authorities.

The other tendency, which manifested itself is the complementary to the tendency to relieve the local authorities of the expenditure on medical relief. This tendency is the increasing recognition of the fact that in matters of health, more than any other matter, prevention is much better than cure, and for prevention the education of public opinion is far more important than the provision of institutions. The local authorities are much better fitted to undertake the preventive than the curative functions and can be utilized to work out schemes of health-improvement for the success of which their co-operation is of very great importance. The appointment of a few sanitary inspectors and health officers in some of the principal towns before 1921 was the beginning of this change of outlook. Conservancy, drainage, and water supply are essentially preventive functions, and they have, since the very inception of the municipal self-government in India, been regarded as the primary functions of the municipalities. But the significance of the appointment of a few health officers lies in the fact that it can be taken to mean to be an expression of a conscious desire to make public health a sphere of corporate constructive activity, i.e., to make use of the knowledge of the constitution of man, his environments and all other factors bearing on health to provide a sound basis for the physical efficiency of the nation. The development of this

tendency since 1921 is a clearer recognition of the same vital need. But what has been done is a beginning and only a beginning of the work which lies before the nation.

The growth of what is called "preventive medicine" is one of the most remarkable features of public health activities of the State in most of the civilized countries of the world. It is not easy to draw the line between the preventive and the curative medicine, but what is meant by preventive medicine is fairly well understood and can be made the basis of a clearly defined public policy.[1] There must, of course, be a certain amount of overlapping between the two, and what is more, a provision for a large measure of co-operation between the preventive and curative branches

[1] Sir George Newman, ex-Chief Medical Officer of the Ministry of Health of England has enumerated the following principal elements as the articles of a national policy in Preventive Medicine:—

1. Heredity and Race.
2. Maternity, and the care, protection and encouragement of the function of motherhood.
3. Infant welfare and reduction of infant mortality.
4. Health and physique of the school child and adolescent.
5. Sanitation of the environment, the control of the food supply, and the improved personal and domestic life in the home.
6. Industrial hygiene and the health of the worker in the workshop.
7. The prevention and treatment of infectious diseases.
8. The prevention and treatment of non-infectious diseases.
9. The education of the people in hygiene.
10. Research, enquiry and investigation, and the extension of the boundaries of knowledge.

George Newman, "*An Outline of the Practice of Preventive Medicine*", page 131.

These articles not only include the prevention of disease, infectious and non-infectious, but also its treatment. That would, of course, include medical relief, but it is not possible, as remarked in the text, to have a clear-cut distinction between medical relief and preventive medicine, but as a statement of the important features of national policy, Sir George's enunciation is as comprehensive and clear as it can be.

of public health services. There must also be a provision for institutional treatment as a part of the preventive medicine, but greater reliance has to be placed in the latter upon propaganda, public education, the improvement of the sanitary conditions and the adoption of measures calculated to ensure the provision of pure water supply and unadulterated food for the public. Preventive medicine itself is only the negative aspect of the policy which must eventually lead to the adoption of measures calculated to achieve positive results in the domain of physical well-being. Reduction of the death rate, and of the rate of infant mortality, the prolongation of life and the removal of causes which generate ill-health and diseases are necessary but preliminary steps to the adoption of policy which will aim at using the discoveries of social genetics and dietetics, of the principles of town-planning and public hygiene, and of the law governing the inter-relation of mind and body and of all other knowledge bearing on public health to develop not only a strong and healthy race of men and women, but also to create conditions which will make physical efficiency, beauty, and grace essential elements in the cultural life of the nation. In other words, preventive medicine must, as a matter of course, lead to the adoption of what may be called creative social policy in building up the bodies of men and women[1].

In India, however, we cannot hitch our wagon to a star at the outset and must concentrate on matters like water supply, drainage and education of the people in personal and social hygiene. Most of the towns are still without protected water supply and in the rural

[1] This observation is subject to the very important reservation that in India poverty is the most important cause of ill-health of the people and the health problem, like every other vital problem, cannot be solved without the solution of the problem of poverty. The creative public health policy, to which reference is made in the text, can be adopted and developed only when our people attain 'freedom from want,' through fundamental economic changes.

areas, in spite of the spasmodic attempts to improve the water supply of the villages by giving the grants-in-aid from the provincial treasury, the problem of pure water supply has still to be tackled. The sanitary conditions of most of the towns and of all rural areas are, it is well known, deplorable and a proper system of drainage has still to be provided. The fact that in India, in spite of the progress that has been achieved, our death rate and the rate of infant mortality are about the highest in the world, is only an outward index of the extremely unhealthy conditions under which the nation is living at present. The introduction of compulsory primary education is perhaps the most important initial step which has to be taken to remove the obstacles in the way of public education in health; but that, of course, will only facilitate the carrying out of a programme of public health improvement. The programme itself will have to be worked out with great care and due consideration of all the relevant factors, and for its execution we will have to work up local enthusiasm and enlist the co-operation of enlightened elements in the community. In a country like India preventive medicine is not only the right policy but also true economy, because it will give a better return for a small expenditure than any other kind of health work. Local authorities are, as remarked above, better fitted to carry out preventive measures than to provide hospitals and dispensaries for remedial treatment, and since the policy of prevention will, if it is to be adequate and effective, require all their resources and public spirit of their members, it is necessary that they should devote their funds and attention exclusively to the adoption and development of the preventive measures.

Since 1921 in some Provinces the dual policy of the provincialization of main hospitals and the development of public health activities of the Municipalities and Local Boards has been followed; but in spite of it the medical relief is costing local authorities nearly Rs 4.5

crores. In some cases the contributions were levied upon them for the maintenance of hospitals which were entirely under the control of the Provincial Governments[1]. In other cases even when the hospitals were maintained and managed by the local authorities, their control over them was more or less nominal; and the control of the Civil Surgeon, the chief medical officer of the district, over the administration of the hospitals and dispensaries of the Municipalities and the District Boards is all but complete. In the interest of efficiency it is probably necessary to exercise departmental control over local medical institutions, but the only interest which the local authorities have in their administration is limited to the provision of funds; and, of course, the extent to which they have to support the institutions over which they have very little control, to that extent they are unable to develop their other activities.

It is necessary to increase the number of hospitals and dispensaries and provide much more extensive facilities for medical relief, but that is a duty which can be discharged much better by the Provincial Governments than by the local authorities. The recently appointed health officers of most of the Provinces belong to Provincial Service and work under the direction and administrative control of the Provincial Public Health Commissioners. This step has had to be taken to secure the services of properly qualified men for the execution of public health schemes. The question of the relation of the Health Officers to the Executive Officers of the local authorities is one of the many questions which have to be faced and solved in cases in which, for financial and administrative reasons, the Provincial Govern-

[1] The local authorities have to contribute towards the maintenance of institutions under the control of the Provincial Government in a number of cases. In 1939-40 the local bodies had, for example, to find Rs. 1.20 lacs for maintaining schools managed by Government. It has been stated in the text such apportionment of expenditure is wrong in theory and unnecessarily confusing in practice.

ment and the local bodies have to co-operate in the carrying out of public policies. But as it has been already remarked, the success of preventive health activities depends more upon local than provincial factors, and local knowledge and interest have to be fully utilized in order to get the best results. It will, therefore, be an improvement even from the administrative standpoint if in regard to public health there is re-allocation of functions suggested in the preceding paragraphs, i.e., medical relief should become purely a provincial function and preventive medicine the only health function of the local authorities.

As an integral part of the public health activities of the local bodies, there ought to be a provision for slum clearance, rebuilding, expansion and improvement of houses in the urban and the rural areas. Besides the three Development Trust Acts of Bombay, Calcutta, Madras, the United Provinces and the Punjab have their Town Improvement Acts, under which the schemes of general improvement can be framed and executed with the sanction of the Provincial Governments. The Development Trusts of the Presidency Town have carried out large schemes of improvement, and under the United Provinces Act, the Improvement Trusts have in the past operated in Cawnpore, Allahabad and Lucknow. In Madras and the Punjab the Acts provide for the preparation of schemes for rebuilding, expansion and improvement, but in spite of the fact that in Madras, since 1927, the preparation of the improvement schemes has been obligatory for all local bodies, very little progress has been made in carrying out measures of improvement.[1]

[1] Progress in Madras, though slow, has been going on, and every year new schemes are being sanctioned by the Government and put into operation. In 1929-30 the Government sanctioned six schemes in the Salem Municipality, two schemes in the Kaine Municipality and a scheme in each of the Municipalities of Madura and Vallore, and in the same year five Municipalities were called upon to prepare and submit schemes of improvement in respect of such of their

In India cities, towns and villages are all so insanitary and filthy that the necessity of relaying out the plans of all inhabited areas and rebuilding of houses cannot but be obvious to anyone who knows the actual conditions. But to de-house and re-house the whole nation must appear a utopian enterprise when it is realized how very difficult and immense the undertaking must, in the very nature of things, be. And yet it is extremely unlikely that any substantial progress will be made in bringing about a permanent improvement in the health of the people unless their housing conditions are vastly improved. That, of course, means that stupendous as the task is, it has to be undertaken[1]. Financing of this huge undertaking will present problems of its own, and taxes, loans and special assessments will all have to be utilized to provide funds for the schemes of improvement. But when it is realized what the full application of the principles of preventive medicine involves in the way of town planning and town improvement operations, the necessity of relieving the local bodies of the responsibility for the maintenance of hospitals and dispensaries

areas as were recommended by the Director of Town Planning. The Madras Town Planning Act, 1920, and the Punjab Town Improvement Act, 1922, are the two measures which can, given the will, be made instruments for bringing about considerable improvements in the housing conditions of the people. But the actual progress made is far from satisfactory. In 1929-30, the Madras Municipalities spent Rs. 2.42 lacs on town planning out of which only Rs. 31 thousand were contributed from the general fund.

[1] In the Madras Presidency, which is probably ahead of all other Provinces in this respect, only Rs.1.14 lacs of capital expenditure was incurred on town planning in 1939-40—obviously inadequate for making any real headway in this respect. In the United Kingdom the Labour Government, is, as is well known, committed to the policy of town and country planning on a very ambitious scale and is likely to vest the local authorities with large powers for the acquisition and development of land. We in India are in far worse position in the matter of housing and will have to adopt bold, imaginative and effective measures to make this country fit for men to live in.

will be readily conceded. The preventive and constructive phases of public health policy shade off into each other; and though in India, as remarked above, we have, in the near future, to be content with the adoption of measures like improving the water supply, drainage and conservancy arrangements, our horizon should not be limited by them. In framing and developing the public health policy its constructive aspect should be constantly kept in view. Town planning and town improvements are both preventive and constructive measures and are, on that account, of special interest and importance. The execution of these measures is going to be one of the major problems of local finance, the solution of which will involve strain on our entire resources. This strain will, however, have to be endured for the physical regeneration of the nation is impossible unless people can be provided with sanitary and healthy dwellings and the towns are planned to make them real units of community life.

In connection with town planning and town improvement there is one point of administration about which it is necessary to say a few words. The Development Trust Acts of the Presidency Towns provided for the constitution of Special Trusts for the carrying out of schemes of improvement and development. On these Trusts the Municipal Corporations were represented, but the real control was in the hands of the Government. The Improvement Trusts constituted under the United Provinces Act were also semi-official bodies on which also the Municipal Councils were represented. In the Punjab Act too there is a provision for the constitution of *ad hoc* bodies the chairman and three members of which are to be nominated by the Government and three members to be elected by the Municipal Councils. Under the Madras Act the execution of the improvement schemes is entrusted to the Municipalities themselves though there is a provision, if necessary, for the constitution of Special Trusts for the purpose.

The constitution of Special Trusts for the execution of the development schemes in Bombay in 1898 implied a lack of confidence in the capacity of the Corporation to carry out the schemes. The same consideration holds good in the case of the Calcutta Improvement Trust and also in that of three Improvement Trusts of the United Provinces. The Bombay Trust has been dissolved and its property and functions have been vested in the Corporation which is carrying its duties through a committee of its own; and there is no reason to suppose that there has been any deterioration of the standard of administration on that account. In the Madras Presidency the work of improvement has, until now, been carried out by the Municipal Councils. There is no *prima facie* case for constituting *ad hoc* bodies for the execution of the town planning and improvement schemes. The constitution of two bodies for the discharge of practically the same functions cannot but lead to friction and disharmony between them. There is a great deal to be said for the Government exercising a certain measure of control over the preparation and execution of the schemes of improvement and development; and it is also necessary to maintain a separate Development Fund and distinguish clearly between its capital and revenue accounts. But there is no necessity for creating a semi-official body for carrying out the schemes of improvement. A committee of the Municipal Council can, with the assistance of a few co-opted engineering, public health and financial experts, be trusted to do the work as efficiently as any *ad hoc* body specially constituted for the purpose.

Besides education and public health the local bodies in India, as in every other country, have been and are responsible for the development of roads for the construction and maintenance of which they receive large grants from the Provincial Governments. There has been a tendency to economise on roads since 1921 and the net expenditure on them from the local funds

has, if we allow for the increase in the cost of construction, not increased in the last decade.[1] While the local authorities have, under the stress of the new forces, been trying to establish a new equilibrium in expenditure, the road problem in India, as also in other countries of the world, has been revolutionized by the remarkable development of motor traffic in the last few years. The growth of motor traffic is a factor which has not had time as yet to produce its full effect; and in years to come its influence on the life of the nation will certainly, it can be safely predicted, grow in importance and it will create new problems by breaking the isolation of the countryside and exposing it even more fully now to the disturbing effect of the forces emanating from remote and distant quarters. The influence of the new forces will be profound and far-reaching and not be confined to any one sphere of national life.

But even during the short period that this new method of transport has been in general use it has created conditions under which "the road development" in the words of the Indian Road Development Committee, "here, as elsewhere, is passing now beyond the financial capacity of local Governments and local bodies, and is becoming a national interest, which may, to some extent, be a proper charge on central revenues"[2]. The national aspect of the problem has already received recognition by the fact that, according to the recommendation of the Road Development Committee, special taxation has been levied for the development of roads, a central fund instituted for giving grants to the Provinces and a Road Board constituted for co-ordinating the development of roads in the Provinces. In the Provinces themselves the Road Boards have been consti-

[1] From 1913-14 to 1926-27, according to the Indian Road Development Committee, the Provincial expenditure on roads has increased by 110 p.c. and the local expenditure by 16 p.c. Vide *The Indian Road Development Committee Report*, para. 22.

[2] Vide *The Indian Road Development Committee Report*, para. 57.

tuted to give coherence and unity to the programme of road development from the provincial standpoint. A glance at the road map of India will readily show the need for formulating a national road policy, and providing for inter-provincial and inter-local co-operation in its execution.

At present roads are a provincial subject and the Government of India does not maintain any roads outside the minor Administration Areas which are directly under their control. The Road Development Committee classified roads in the Provinces under five heads[1], for three of which it has been able to give figures of mileage. Of the total road mileage of 199,140, 47,770 were provincial and 151,370 local. In other words, 23.8 p.c. of roads in these three classes are maintained by the Provincial Governments and 76.2 p.c. by the local authorities[2]. The remaining two classes of roads, with large but unascertained mileage, are also maintained by the local authorities. These facts bring out the important position which the local authorities occupy at present

[1] Excluding roads in Municipal areas, roads in British India may be roughly divided into the following five classes:—

(1) Roads wholly or mainly maintained from provincial revenues;
(2) Roads maintained from local funds, that is, from the funds of district councils or boards with grants-in-aid from provincial revenues;
(3) Roads maintained from local funds;
(4) Roads maintained by minor local bodies such as union boards and village *panchayats*;
(5) Roads maintained by the villagers themselves.

[2] Vide the *Indian Road Development Committee Report*, para. 19. The latest available figures are for 1937-38. The total road mileage for that year was 284,191 miles out of which 220,485 miles were unsurfaced roads and the rest metalled roads. The total mileage of roads maintained by local bodies was 244,797 miles, most of them were, of course, unmetalled roads. The position, it would appear, has not materially changed since 1926-27.

in the road system of the country, such as it is, and also the need for developing a properly co-ordinated road system in the future.

The vital importance of developing the road system of the country has been emphasized by both the Indian Road Development Committee and the Agricultural Commission[1] and has since then been further emphasized in the post-war development scheme of the Government of India. This development is necessary in the interest of the economic, political and social progress of the country, and the schemes of development have to provide for not only the arterial and main roads, but also the feeder or radial and the village roads. It is the villages which specially need efficient means of communications, and it is not much use building a system of main roads if they are not connected with one another and there are no feeder roads to connect them with the villages. It is because of the importance of the feeder roads that the Indian Road Development Committee has recommended that grants from the central fund be given for the construction of not only the arterial but also the feeder roads. The growth of motor traffic will not yield all the benefits of which it is capable unless provision is made for efficient communications for the villages.

At present though most of the local roads are maintained by the local authorities, they in Madras, Bombay, the Central Provinces and Assam are also responsible for the construction and maintenance of provincial or trunk roads, and in some Provinces the Provincial Public Works Department incharge of some of the district roads. Local authorities receive grants from the Provincial Government for the construction and maintenance of trunk roads, and the grants for them are given on a more liberal scale than for the local roads, but even then a part of the expenditure on the trunk roads has

[1] Vide *The Agricultural Commission Report*, para. 298. *The Indian Road Development Committee Report*, paras. 33-36.

to be borne by the local revenues. For a properly co-ordinated road system it will be necessary to have a system of classification according as the roads are national or provincial highways or are of different degrees of importance from the local standpoints. It may be desirable for the Government of India to assume responsibility for the construction and maintenance of the national highways of commerce, but as long distance traffic is still likely to be carried by the railways, the present arrangement of using the Provincial Governments as agencies for the management of the inter-provincial roads will probably have to be continued for the future.[1] But as between the Provincial Governments and the local authorities there ought to be a clear allocation of functions, and the latter ought to be relieved of all financial and administrative responsibility for the management of the non-local roads. The local roads will, as remarked above, have to fit into a national system, and for their development, the local authorities will have to be subsidized more liberally, according to their "necessity" and "ability"; but in view of the undeveloped state of local roads and their being reduced to "an impassable morass" during the rains, it is a matter of the utmost importance that they should concentrate on the development of purely local roads. These remarks apply to the roads in the rural areas. The roads in the urban areas or the municipal roads will, of course, have to be maintained by the Municipalities, for which they will receive grants-in-aid, and in the case of the roads which are a part of the

[1] In the post-war road development scheme of the Government of India action on the lines indicated in the text seems to be foreshadowed. The scheme provides for metalling of all existing roads and constructing for 300,000 miles of new metalled roads with a view to give the country a properly co-ordinated and well-developed road system and to bring most villages within half a mile of a metalled road. The scheme is estimated to cost Rs.400 crores and will have to be financed by the central and provincial authorities, its execution being completely beyond the means of the local authorities.

arterial roads they will be entitled to special grants from the provincial funds.

Primary education, preventive medicine including town planning and town development and local roads will, if the reasons given in the preceding paragraphs are sound, be the only main functions of the local authorities, and they will be relieved of responsibility for secondary and technical education, hospitals and dispensaries and non-local roads. They will also be relieved of the functions like stock-breeding and veterinary relief, because of the very simple fact that the three vital functions referred to above must have precedence over every other functions in the allocation of their resources and energy. It may be convenient in some cases to make use of the agency of the local authorities for the carrying out of schemes of the economic and social betterment of the people which are initiated and financed by the provincial authorities. There ought to be an ample provision for a full measure of co-operation between them and the local authorities in all matters of general well-being, but this should not involve any expenditure from the local revenues on objects other than the three for which they will be primarily responsible.

Besides these three functions the local authorities will, of course, perform minor functions and spend money on general administration. But the practice of charging the cost of supervisory functions to the local revenues, which was fairly common until 1912, should not be revived in any guise or form and even the function like the assessment of the capital value of real property, which, as suggested in Chapter IV, ought to be provincialized, should be a charge on the provincial revenues. It has been made abundantly clear that the conception of local functions, which are of interest only from the local standpoint, is antiquated and out of harmony with the facts of life. All vital functions are national; only in some cases it is convenient

to have a decentralized, and in other cases a centralized, administration. Just as the grants-in-aid according to needs are a necessary incident of the decentralized administration of national services, the inability of the local bodies to provide for efficient assessment of local property is an incident of the limitations of the elective system and, therefore, the centralization of assessment can properly be made a charge on the provincial revenues.

It has also been made quite clear that in view of the fact that the whole future of the nation depends upon the administration of functions assigned to the local authorities, the Provincial Governments and, in some cases even the Government of India, cannot help taking a lively interest in the administration of these services. If in matters of education, health and communications we are to have, as we must, national policies, the central authorities will have to take an active part in the formulation of policies and programmes and in laying down the underlying principles of administration. It is almost inevitable that the impetus for undertaking large schemes of development should come from the centre. Local authorities cannot, owing to the very nature of their position, take long or wide views. The Provincial Governments will have to stimulate them through their supervisory officers, research bureaus and by making provision for joint meetings, conferences and other methods of formulating common policies. The practical application of these policies will require resourcefulness, energy and capacity for adaptation on the part of the local authorities and give them full scope for local initiative and enterprise. The fact that the local expenditure will be limited to the three essential needs of the community will not in any way have a stunting effect on the development of the local corporate life.

LECTURE IX

VILLAGE PANCHAYAT FINANCE

It is obvious that in India local self-government cannot become a reality unless it is built upon the sound foundations of village self-government, and, as pointed out already, village self-government, in spite of the ineffectual attempts made in recent years to establish Village Panchayats and Union Boards in the different parts of the country, does not exist in India, and has to be created. Before 1921 there was no real desire on the part of the Government to make the villages self-governing units in the administration of local affairs. The Decentralization Commission urged the imperative necessity of introducing self-government in the villages, and the Government of India, in their Resolution of 1915, endorsed that view and laid down general principles for the guidance of the Provincial Governments. But nothing was done, and there was no genuine wish to do anything.

Since 1921 various Village Self-Government Acts have been passed; and several thousand village authorities,[1] have been established and in some Provinces a certain measure of progress has been achieved. But so far as

[1]The present position of Village Authorities in the major provinces is as follows:—

Bengal—In 1939-40 in Bengal there were 5,126 Union Boards covering an area of 56,840 square miles. Their total income in that year was Rs. 104.98 lacs and expenditure Rs. 103.46 lacs. Rs. 80.56 lacs of their income was derived from the Union Rate out of which Rs. 62.21 lacs represented the Chaukidari Rate for rural police but the amount spent for the purpose was Rs. 51.54 lacs or 49.8 p.c., of the total income and Rs. 61.96 lacs were spent on local

the country as a whole is concerned, the problem of village self-government has still to be solved. The necessity of rural reconstruction is universally admitted, and it is now also appreciated that the problem has to be dealt with as a whole. Departmental handling of specific problems, which has so far been the rule, cannot,

improvements, etc. Income of the Union Boards on the average amounted to Rs. 2,048 and the expenditure a little less. Besides rural police the Union Boards spent on roads (Rs. 8.49 lacs) water supply (Rs. 8.18 lacs), drainage conservancy and sanitary measures (Rs. 2.27 lacs), primary education (3.01 lacs) and medical relief (Rs. 3.60 lacs).

Bombay—In Bombay there are three types of Village Authorities. A few (20) are constituted under the Bombay Act 1 of 1889 but most of them under the Bombay Village Panchayat Acts, 1933 and 1939. The number of the latter was 450 in 1939-40, their income Rs. 2.60 lacs and their expenditure Rs. 1.29 lacs.

Madras—In Madras the village authorities are divided into two classes:—*viz.*, Major Panchayats and Minor Panchayats. Major Panchayats in 1939-40 were 264 and had been constituted under the Madras Local Board Act 1920. Incidence of taxation per head of these bodies was as. 9-9 out of income of as. 14-3, their total income Rs. 32.31 lacs and total expenditure Rs. 31.36 lacs. The total income of the Minor Panchayats was Rs. 29.33 lacs and total expenditure Rs. 13.08 lacs and their total closing balance was Rs. 14.05—more than the total expenditure. The most important sources of revenue of Major Panchayats were House Tax, Market fees and Profession Tax.

United Provinces—In the U. P. there were in 1939-40 4,809 Village Panchayats constituted under Act VI of 1920. But the number of Panchayats which were really active were comparatively small though earnest efforts seem to have been made to infuse life into them.

Behar—In Behar, as in Bengal, there have been constituted Union Boards under the Village Administration Act of 1922. They levy a tax on persons generally called the Union Rate, bulk of the receipts of which are used for maintaining rural police, but a small portion is also utilised for local works of public utility. The Union Boards are subject to the control of the District Boards and rural police is entirely under the district authorities. On the average each Union Board is constituted for an area of five to ten miles. There were 152 Union Boards in that Province in 1929-30 and their number has not materially changed since then.

Punjab—In the Punjab the Village Authorities have been

as the Agricultural Commission has pointed out,[1] be of any avail. In this work of reconstruction the expert has to play an important part and the administrative officers have to co-operate enthusiastically in the execution of the welfare schemes; but "the matter", in the words of the Agricultural Commission, "largely rests with the people themselves".[2] They have to be awakened to the supreme need of working out their own salvation and given the necessary instruments for the purpose. That is why it is of the utmost importance that the village self-government should be placed on a sound footing and fully developed. There is no hope of our being able to make any real headway unless we can get active and efficient village authorities to function with the whole-hearted and intelligent support of the people.

The successful functioning of the Village Panchayats, however, depends on our realizing that the conditions under which these institutions have to work now make it impossible for them to be "little republics". The insti-

constituted under the Punjab Village Panchayat Act. They perform both judicial and administrative functions. They levy Village Rates on houses but rely very largely on fees, fines and other miscellaneous sources. Their funds are very limited and though they are reported to have performed useful judicial functions, they have done little, if anything, to develop local self-government in villages.

C. P.—In the Central Provinces Village Authorities have been constituted under the C.P. Village Sanitation and Public Management Act and the C. P. Village Panchayats Act, both passed in 1920. In 1939-40 there were 1,020 such bodies. They can levy Village Rates which is assessed according to circumstances and property but a large part of their income is derived from fees and fines.

Assam—In Assam serious attempt for introduction of village self-government was made after the enactment of the Assam Rural Self-Government Act in 1926. In 1929-30 there were 236 village authorities with total income of Rs. 57,000 Since then the position has become worse. In 1939-40 there were only 79 village authorities with total income of Rs. 8,027. Practically village self-government is non-existent in Assam.

[1] Vide *The Agricultural Commission Report*, para. 423.

[2] Ibid, para. 392.

tutions which maintained the economic and social life of India in its integrity through the vicissitudes of political fortunes cannot be revived. Centralized administration was introduced into India by the British because of the needs of the bureaucratic system; but a very large degree of centralization has now become necessary owing to the working of the centripetal forces of economic life. The villagers today cannot shut out these forces even when they do not understand their working or their effect upon their daily life. Village Panchayats, therefore, cannot be merely autonomous little commonwealths containing within themselves all the elements of vitality and efficiency. The Agricultural Commission says that the cultivator "is a member of a definitely organized community which, as far back as the history of social organization in India can be traced, has been dependent on itself for the means of living and to a very large extent for its Government"[1]. There is a confusion of ideas in this statement owing to the fact that the effect of the conflict of the past and the future, which is such a marked feature of the Indian village life, is not fully appreciated. The Commission admits in its Report that there is a stir of new ideas in the villages, and the introduction of 'market' crops and motor traffic has had and increasingly will have a profound effect on their internal economy. But it does not seem to realize clearly how these new factors radically alter the conditions of local government in the villages.

The village cannot govern itself as it used to in the times "to which the history of social organization in India can be traced" or even in the comparatively recent times. The decay and disintegration of community life in the villages, which has now been going on for the last six or seven decades, is not yet complete, but soon it will be. The definitely organized community life, of which the cultivator was a member, is already a thing

[1] Vide *The Agricultural Commission Report*, para. 394.

of the past in most places and will before long cease to be in the rest. The old customs and habits of thought and action will not vanish altogether. That does not happen anywhere, and certainly will not happen in the villages of India. But they will not have any functional importance as the order, of which they were a part or which gave rise to them, is passing away and has to pass away. The village has, however, a corporate life of its own which, if properly organized and made conscious of itself, can be made the basis of a new definitely organized community which has to take the place of the old. It is necessary to galvanize this life into a self-conscious creative activity. The village has its common needs which are not the less pressing because they are not the same as they used to be. It has, as a matter of fact, to take its place in the new order not as self-contained and self-sustaining unit but as an organ of the common life of the nation. Its own existence depends on its becoming aware of the radically changed conditions under which it has to live and have its being and upon making the necessary readjustments. But the existence of the nation also depends on the extent to which the village can develop the new community life and in itself become the converging point of the forces which make for health and progress of the nation and the channel for their free and unobstructed flow. The village has to become the organ of national life, because the latter has to function through it and provide for itself the essentials of efficient and progressive life.

The object of the reorganization of village life must, of course, be to foster the habits of local initiative and enterprise which are now lacking because the villager does not understand the new situation and how to deal with it. The impulse, however, which has to set the process of readjustment going, has to come from without. In the past the village was dependent on itself for its means of living and, therefore, to a large extent, for its government. That is not so now. Its prosperity even

now partly depends, and in the future will depend more and more, on its capacity to face up to the facts of the outside world and adjust its economic life to them. The village could govern itself in the past because it was almost entirely independent of the course of events elsewhere. Now it has been brought into the vortex of the world economy, and self-government which will suit it now must take account of the fact that the village no longer depends on itself for its means of living. The village cannot become an active unit of efficient and progressive life unless it uses its corporate life to meet the new situation in a spirit of self-confidence and turn it to the best account. Its economic life must be healthy and reorganized before it can be invigorated and resuscitated as a dynamic centre of national life. To say this is to say that the village self-government has to be conceived as a part of the whole scheme of rural reconstruction, the drive for the carrying out of which cannot come from within the village itself. All the agencies, which can contribute to the rehabilitation and development of village life, have to join forces and place at the disposal of the villager all the resources of knowledge, science and organized life of the nation to arouse him to the necessity of making conscious readjustment to the situation with which he is confronted and provide him with the means to achieve that end.

Though the village has to become the focal point for the working of all the Development Departments of the Government, and in the reorganization of its life the varied complex of numerous factors has to be reckoned with, its own life must retain the characteristics of effective simplicity and function through its own organs of corporate life. There must not be an over-elaboration of purposes and methods, and any unnecessary multiplication of agencies constituted for the purpose of the amelioration of the villages. If once the villager can acquire the habit of self-help and gain self-confidence based on an intelligent understanding of what is to be

done and how it is to be done, he will be able to make use of his simple instruments of collective life for launching an era of progress and sustained activity on a new level of achievement. These simple instruments will be the Co-operative Society and the Village Panchayat. The Co-operative Society exists for better business and the Panchayat for better living; but the trend of the argument of this and the preceding paragraphs is that better living is impossible without better business which, in its own turn, is stimulated by all that makes for better life. Both, therefore, are necessary for the regeneration of the village and are, as a matter of fact, complimentary to each other.

From this point of view now, as in 1920-21, the existence of about one hundred and twenty-five thousand co-operative societies is, to the extent to which they are really co-operative, of much greater significance even from the standpoint of village self-government than the existence of a few thousand Panchayats. They bring into play and release the very forces on which the Panchayats must depend for their strength and growth; and the development of the co-operative movement[1] is, therefore, not only beneficial but essential for the development of village self-government. Panchayats of the past throve on the soil of co-operation suited to the needs of self-contained village economy. Now the village is neither self-sufficient nor self-subsistent. But still co-operation is the only hope of the future; and it is when through the impetus given by the co-ordinated central effort the village can gain its new centre of gravity and develop its resources on a co-operative basis, that the village self-government has any chance of becoming a vital factor in the life of the nation.

It does not follow from the argument of the preceding paragraph that the Panchayats should not be established unless the real co-operative movement[1]

[1] The co-operatives, through which economic regeneration of

is well under way and attain its object of placing the whole economic life of the village on a co-operative basis. This will not only take time, but involve other changes in our economic system, which cannot be easily brought about. But it does follow from this argument that a village, which has lost its old integrity owing to the intrusion of new forces in its economic life and has not developed cohesive elements necessary for finding a position of new equilibrium, is a poor soil for the plant of self-government. The fact that in the last twenty-five years, in spite of the enactment of the village self-government laws in all Provinces, the progress made in the development of self-governing institutions in the villages has been extremely slow is due to the absence of favourable conditions. The establishment of Panchayats and their development will require initial efforts on a very large scale and constant vigilance on the part of officers specially appointed to help and watch the development of rural area. Madras has now its Registrar General of Panchayats, and in the Punjab a few Panchayat Propaganda Officers have been appointed. But what the villagers need is thousands of officers who should give them the guidance which they need so very badly for making improvement in the different spheres of life. These officers will be in charge of the general development of a group of villages to which they are posted, give the villager advice on matters like co-operation, sanitation, education and agricultural improvement and also be responsible for the establishment and

villages has to be worked out, must cover their entire economic life and include, besides credit, marketing, purchasing, processing, distribution and, more important than all other function, joint cultivation. It is being increasingly realized that this intractable problem of small and scattered holdings, which has such a repressive effect on the progress of agriculture, cannot be solved without co-operative cultivation in some form or the other. The co-operative movement to which reference is made here has to be a different order and much wider scope than this officially-sponsored, lifeless movement to which the name has been given so far.

development of the village Panchayats. The Development Officers can, of course, not be experts in every subject; but their function should, as the Agricultural Commission has pointed out, be "to direct the villagers where to go for advice rather than to give that advice himself"[1]. The Development Officer's real work, however, will be in the direction of supplying leadership which, as every one admits, is the one thing which the cultivator lacks and cannot do without. The success of Panchayats, it may be repeated, will be determined by the all round development of co-operative effort for the reorganization of village life; and if the Development Officer can be given the right conception of his duties and is imbued with the spirit necessary for discharging them efficiently and well, he will be able to stimulate this comprehensive co-operative effort and foster its growth.

The functions assigned to the Panchayats and the Union Boards under the different village self-government Acts give them sufficient scope for collective enterprise. "Their duties include the supply of water for domestic use; the cleansing of public roads, drains, tanks, wells (other than tanks and wells used exclusively for irrigation) and other public places and works in the village; the construction, maintenance of minor roads, drains and bridges; sanitation, conservancy and the prevention and abatement of nuisances; the maintenance and regulation of public buildings vested in the Panchayats or local committees and the control of grazing grounds; the lighting of the village, the supervision of the village school and the management and maintenance of cattle grounds."[2] These are simple duties; but if we can have Village Authorities all over the country which can undertake to provide for these elementary needs of the rural community, we can go a long way in carrying out the work of rural reconstruction. We

[1] Vide *The Agricultural Commission Report*, para. 423.
[1] Vide *The Agricultural Commission Report*, para. 395.

have to deal with the problems of poverty, ignorance and ill-health in the villages. The problem of poverty will, as suggested above, be the special concern of the co-operative societies and the various Provincial Departments which will use them for helping the villager to become more self-reliant and face the situation with understanding and self-confidence. But the problem of ignorance and ill-health are problems with which the Panchayats will have to deal. They too will need all the guidance which they can get from the Provincial Department through the Development Officer of their area. Their function will not be to initiate schemes or draw up plans of development. If they can co-operate whole-heartedly and intelligently in the carrying out of the schemes which they are advised to adopt, they will be doing all that they need or can do under the existing circumstances.

These duties, simple as they are, involve the outlay of very large resources[1] which the Panchayats will have to be provided with. They will not only need guidance but also financial aid from the Provincial Government. For the introduction of these improvements capital and recurring charges will have to be incurred; and though it is not possible to lay down any hard and fast rule, as a principle of general guidance it will probably be desirable to finance the capital cost of the schemes of village improvements by the grants-in-aid, and for the recurring expenditure place the Panchayats in a position to meet

[1] The Decentralization Commission in recommending the establishing of the Panchayats all over India considered it essential to their popularity and efficiency that they should not be associated with any new form of taxation (Vide the *Decentralization Commission Report*, para. 718). We must now realize the simple fact that additional taxation will have to be a primary condition of their efficiency; and as regards their popularity, that will depend upon the extent to which we can inspire them with a will to live because the moment they realise that the present existence is not life, but life in death, they will bestir themselves to adequate corporate activity to retrieve the present position.

it largely from their annual revenue. The schemes of development will have to be planned out in advance, and their initial and recurring cost estimated. What each village needs is pretty well known. If we can give it an efficient public school, public latrines, supply of pure water, village roads and sanitary surroundings and houses, we can equip it for a career of progress and development. But for the carrying out of such a programme, we will have to mobilize the entire resources of the country, and make the provision of these amenities the first charge on their outlay. The grants-in-aid will be a recurring charge on the resources of the central authorities even though they will be given for meeting capital expenditure. Owing to the utterly undeveloped state of the country, it will, as pointed out in Chapter VII, be necessary to treat development as a recurring liability of the nation for an indefinite period.

But even the expenditure, which will have to be charged to the revenue account of the Panchayats, will be heavy; and though a considerable part of it will have to be met from the village fund, it will be necessary to supplement the latter by contributions. But probably the best plan will be to relieve the Panchayats altogether of any responsibility for the maintenance of schools and enable them to devote their resources to making improvements in their sanitary conditions and developing public health services and communications. But even for that the Panchayats will require large income. Where is it to come from?

At present the various Acts have given the Panchayats the power to levy the House Tax, the Tax on Persons assessed according to circumstances and property and in Bombay they are also empowered to levy the Octroi Duties. But owing to the fact that the progress of village self-government since 1921 has been so very unsatisfactory, the experience of the Panchayats in the field of taxation is of interest only inasmuch as it shows what a cramping effect the present position has had on

the development of their activities. We seem to be moving in a vicious circle. Panchayats, we are told, cannot be established, because they involve the levy of additional taxation; and those that are established cannot do anything owing to the lack of funds. But the obvious fact is that Panchayats, which will function without having to incur large expenditure and, therefore, raise funds, cannot be constituted. It ought to be possible, as suggested a little later, to supplement the effective resources of the Panchayats by co-operative labour; and their resources should also be increased by allocating a considerable portion of the proceeds from the Local Cesses to the village fund. But even then it will be necessary for the Panchayats to levy some taxation for their own purposes. Taxation is onerous and has damping effect on the enthusiasm for corporate or co-operative activities. But it is a necessary condition of development and is the price which has to be paid for getting a move on. We have to make up our minds not only to develop local self-government in the villages, but also to develop local self-government which will involve additional taxation. The association of taxation with Panchayats will render it harder to develop the latter; but as the two must go together, we have to devise measures by which the conditions favourable for the development of both can be provided.

The tax, which seems to have in itself the promise of proving a suitable fiscal expedient for the Village Panchayats, has already been suggested in Chapter IV. The levy and assessment of a presumptive local income-tax to be called the Village Rate can be entrusted to the Panchayats, and will, if proper safeguards are provided, contribute considerable income to the village fund. This tax is already being levied in Bengal, Bihar, Orissa and Assam as Union Rate or Chaukidari Tax, and there is a provision in the Acts of the Punjab and the Central Provinces for the imposition of this tax. If this tax is levied all over the country and its proceeds

are utilized exclusively for the development of village services, it should be possible to develop it as an important source of revenue for the Panchayats. The essential point, which makes it likely that the tax will prove a suitable and efficient method of raising revenue for the Panchayat, of course, is that "in an Indian village, where everyone knows the affairs of his neighbour as well as his own"[1] it will be easy to assess the tax fairly and with full knowledge of the circumstances of the assessees. It is because this essential condition for the successful assessment of the Tax on Persons is lacking in the towns or when it is administered by the District Boards that its assessment and collection is found to give rise to practical difficulties which cannot be easily surmounted. But in the villages those difficulties need not arise; and it can be anticipated with a fair amount of certainty that it will be possible to provide conditions for the efficient administration of the tax in the villages.

It is, however, to be remembered that local knowledge is not sufficient for fair assessment. For that we need combination of local knowledge and independence from local influence. Mr. Jack made detailed investigations into the incomes of nearly 350,000 families in Faridpur district in Bengal and came to the conclusion that the Chaukidari Tax, which was, before the passing of the Bengal Village Self-Government Act, 1919, levied only for meeting the cost of village police, was inequitably assessed because the village headman, whose duty it was to make the assessment, was not independent of local influence though he had sufficient local knowledge for the purpose. "Upon an investigation", he writes in the book referred to above, "which was most carefully made, of the amount by each family, it appears that generally speaking the poorer classes generally pay double as much as the richer classes, and too many of

[1] Vide J. C. Jack, *The Economic Life of a Bengal District*, p. 135.

the latter escape altogether. The number of families in good circumstances, who escape lightly or altogether was astonishing, especially among the Hindus, while, on the other hand at least half of the families who were found to be living in a condition very little removed from actual want were assessed to the rate."[1] This was written in 1916, and with reference to the circumstances of one district in Bengal. Similar investigations have not been made into the incidence of the Tax on Persons in other parts of India; but if they are made, it is not unlikely that they will bring to light the fact that the distribution of the burden not only of the Tax on Persons but also of other direct taxes is unfair all over the country. It is a fact, though it is not possible to give any figures to support it, that the assessment of local direct taxes is unfair, and in some cases grossly unfair, in all parts of India. The suggestion that the Provincial Valuation Department should be constituted for the assessment of taxes on real estate, both in the urban and the rural areas, has been made with a view to provide a remedy for this crying evil. Mr. Jack, who suggests the substitution of personal rate for the Chaukidari Tax and the Local Cess, also recommends the assessment of the rate by "officers of superior position". It will be necessary to have an officer of the Valuation Department associated with the Village Panchayat in the work of the assessment. Panchayat will provide the local knowledge and the officers the necessary detachment from and independence of local politics to make it possible for the tax to be successfully and efficiently administered.

The Village Rate ought to be a fairly productive source of revenue, though it is impossible to estimate what its yield would be; but the amount of the money, which will be required for making an adequate provision for the very essential improvement in the villages will be so large that it will be impossible to

[1] Ibid, page 131.

get anything but a small proportion of the total amount required for the purpose by the levy of the Village Rate. The working of the Indian Tax System throws such a heavy burden of taxation on the rural classes that it is not possible to add very much to their existing burden. The best method of rendering them fiscal justice is to change the incidence of expenditure even if the incidence of taxation cannot be materially changed, and thereby make a real change in the life of the people. In the case of the villages the Local Cesses, which they are paying, are now being mostly spent on purposes which may be indirectly beneficial, but from which they do not derive any direct benefit. It is suggested that a large proportion, at least half, of the yield from the Cess should be placed at the disposal of the village in which they are collected and spent on local improvements.

The total yield from the Cesses in the different Provinces amounted to Rs. 493.08 lacs in 1939-40. If half of it is allotted to the villages in proportion to the amount collected therein, it will place at the disposal of the Panchayats an amount which will not be in excess of their needs, but enable them to face the future with hope and confidence. If the Local Cesses are assessed on the capital value of land and revaluation is made at frequent intervals, the receipts from them will considerably expand owing to the fact that at present valuations are generally out-of-date and assessments are made on bases which are very uncertain and anomalous. In allocating to the Village Panchayats half or more of the receipts from the Cesses, we will be giving them a source of revenue which will not only be productive but also expansive. Lack of money has had a very damping effect on the development of the Village Panchayats. The transfer of half or more of the yield from the Cesses from the Boards to the Village Fund will give them a stimulus which may be expected at least partly to awaken their latent powers.

The finances of the Boards will, of course, have to

be reorganized if this change is to be carried out. If the District Boards are all replaced by the Local Boards with jurisdiction over an area corresponding to the subdivision of a district, as is suggested a little later, that they should be, and are relieved of all charges for secondary schools, medical relief and main roads they will be placed in a position to make some of the readjustments which this change will make necessary. But they will need money for the expansion and development of the services for which they will be responsible, and their share of the Cess receipts will be not sufficient for all their needs. They must have some other source of revenue to discharge their duties in an adequate manner. This source they will have in their share of the proceeds of the Sales Tax which, as suggested at the end of Chapter IV, will be distributed among the local bodies on population basis. The Sales Tax also will be a productive and expansive source of revenue, and the Local Boards ought to find their share of its receipts and that of the receipts from the Cesses sufficient to carry on and develop the fewer functions for which they will be required to assume responsibility. They will also have receipts from the miscellaneous sources like the pounds and the income from remunerative enterprises like the markets and motor services to augment their resources still further. Relatively speaking they will not be in a less favourable position than the other local authorities in the reformed and reorganized system of local finance which is envisaged in this book.

The full significance of the changes proposed in the previous chapters will be appreciated when it is realized that their most important effect will be that it will be possible to spend a larger proportion of the taxes paid by the people in the villages for purposes from which they will derive direct benefits. It was pointed out in Chapter IV that the result of the imposition of the Sales Tax, the abolition of the Octroi and Terminal Taxes and the obligatory levy of the consolidated Property

Taxes by all Municipalities will be that the balance will be redressed in favour of the agricultural classes. Municipalities themselves will be better off when these measures of reform are carried out. But the most important effect of these changes will be that the villages will get back a portion of funds which are really theirs and ought to be expended to bring health, cheer and hope into the cottages of the people.

The combined receipts from the Village Rate and the Local Cesses, considerable as they will be, will also fall short of the needs of the villages. The village needs are few and simple; but if a frontal attack is to be made on squalor, disease, ignorance and the utter inertia of the villages, we will need enormous resources. We cannot hope to have all that we want, but we must use all that we have. In the villages there is available a resource which is not money, but has money value, and is not being used at all for individual or collective purposes at present. The real meaning of the gospel of the spinning wheel, which has been acclaimed as the instrument of the economic and political liberation of the people, lies in the fact that it brings into prominence the necessity of using the available labour of the masses in the villages for the betterment of the lot of the individuals and the community as a whole. This labour is being wasted today; and, being a perishable commodity, it must either be used in the present or it is lost for ever. For putting this labour to a productive use, from the economic standpoint, it is necessary either to give the people subsidiary industries or plant factories in the rural areas whose operation will dovetail into the agricultural operations of the people. But that is not the only productive use of the available labour supply. It can be used, and to a very good purpose and effectively, for changing the physical basis of life in the villages, i.e., it can be used to carry out those improvements which will make villages sanitary, clean and fit for men to live in. These insistent needs are there and obvious.

They are needs both of the individual and the community as a whole. Owing to the smallness of the unit for which we have to provide in this case, the truth of "all for one and one for all" is a patent fact of the situation and can be demonstrated even to the least intelligent of the villagers. The traditions of corporate life, which provided cohesive element in the village economy and gave it the power of resistance and resilience that it has shown all through the ages, are probably not dead, though the disintegrating factors that have been at work in the last six or seven decades, have impaired their efficacy. Any way, if the Village Panchayats can be established in large numbers and become the real basis of our system of local self-government and instrument of rural reconstruction, it will be possible for them to utilize the labour of the people in the villages for satisfying their own common wants—wants which are common but not remote on that account and can be shown to have direct relation to the well-being of the individual himself.

The labour referred to above, it should not be necessary to make clear, is the labour of the agriculturists in the off-season, which is now going to waste owing to the want of any occupation during that period. This chronic under-employment of the vast bulk of our people is one of the most significant facts of our economic life; and its significance lies in the fact that, in spite of the coexistence of the extreme want and the lack of means to satisfy it, we cannot use the latter for the satisfaction of the former owing to the inefficient organization of our economic life. The countries, in which millions of the unemployed have had to be supported at public expense, have also shown their inability to put their labour force to uses which are beneficial, even though they may not be a source of profit in terms of money[1]. But there

[1] These remarks apply especially to a country like England where, during a period of prolonged unemployment, no attempt was

unemployment is due to the working of the world factors, and the argument that the compensatory influence of work-creating devices like extensive house-building, reclamation or slum clearance programme cannot save the situation, can be made to appear specious if not convincing. But in India the position is different. We do not depend upon the world market for finding the off-season occupation for our under-employed millions, or rather the economic recovery of the world cannot be of any use for helping us out of the situation. At the best of times there are millions of idle hands for whom there is no work during several months in the year, and for whom work can be created only if we devise measures by which this double coincidence of want and work can be made an important basis of economic reorganization. The fact on which this argument rests is simple and obvious; but the conclusions to which it points necessitate our thinking in terms of wants and work and not money and profit and our adopting some programme for turning labour into wealth and, therefore, well-being[1].

made to utilize the labour force of the country in a constructive manner. Mr. G. D. H. Cole's proposal, in his "Next Ten Years of British Economic and Social Policies," to organize the people out of work for carrying out schemes of national development did not receive even serious consideration at the hands of any responsible publicist or political party. G. B. Shaw was the only exception, and he used the fact that Cole's proposal fell on absolutely deaf ears to show the utter futility of expecting anything effective from the existing political institutions. Now, however, the position has changed. "Full employment" is the accepted object of public policy in England and it is expected that effective steps will be taken to put it into effect and measures of much wider scope than those suggested by G. D. H. Cole, nearly twenty years ago will be adopted to deal withthis problem.

[1] In India also we have to solve the problem of involuntary idleness by adopting comprehensive schemes of complete economic reconstruction and reduce the pressure of population in the land. Co-operative labour for public utility work in the villages is no solution of the problem. It is a method by which the existing waste of human resources can be partially reduced. The amount of surplus

The above argument may, even if its inherent soundness is not questioned, appear somewhat out of place in a book on local finance; but it is not. We want to enlarge the resources of the Village Panchayats to enable them to carry out programmes of village improvement and arrest the progressive deterioration of their corporate life owing to the change in the entire basis of village economy. This programme must include the provision, as already suggested. of schools, public latrines, drainage and other sanitary improvements, wells for pure drinking water and re-laid-out and re-built villages. For providing these requisites of re-constructed village life we want the services of experts like the school teacher, the health-inspector and engineer, materials for constructing school-building, village roads and all other equipments of healthy life and labour for the materialization of the plans of improvement and the maintenance of the standard of collective life at a high level. Services of the experts and materials have to be paid for in money which must be provided by taxation, grants-in-aid and perhaps even loans, which, however, will have to be raised by the Provincial Government and distributed in the shape of grants-in-aid or material equipment among the Village Panchayats. But labour, which will be needed for making and maintaining these improvements can either be bought with money or made available by the co-operative effort of the villagers themselves. All the money that we can raise will be required for obtaining services and materials which cannot be had otherwise. But labour need not be paid for if money is not available and can be provided by the villagers themselves as their contribution to the village fund. Their labour will not be money but avoid the need for money and, therefore, have money value. This contri-

labour in India is so large and is increasing on account of the growth of population that it will take us a long time before we can create conditions under which jobs will be looking for men instead of men for jobs, i.e., the condition of full employment.

bution in kind will not involve any additional burden. It will only mean putting to use the productive power which is already there and which is now, on account of our inability to use or preserve it, is being lost to the nation.

Here is our chance. We can set people to work to satisfy their own wants. These wants are the wants of the community as a whole; but, as already indicated, the community is made up of such small units that the individual can, without much difficulty, be made to realise that he stands to gain specifically by working for the common ends. The principle of converting the available but unutilized labour force of the people into well-being, and, therefore, into an effective source of revenue, and, in this case, of public revenue, can be put into operation. We can partially use this productive power by making the contributions of labour an integral part of the finance of an adequate system of village self-government.

The utilization of this potential source of public revenue will, however, require the preparation and execution of comprehensive schemes of all-sided development, the necessity of which has been referred to several times already, and education of the people in the practical civics of their village life. Since 1921 a few attempts have been made, to utilize co-operative labour for carrying out schemes of village improvement. These attempts have been very few and haphazard, but have shown the difficulties which lie across our path if we want to use co-operative labour for rural development. In Madras several works of village improvements are reported to have been carried out by the Village Panchayats calling upon the people to contribute their quota of labour for the common good; but in the Central Provinces the provincial grants for the provision of pure drinking water could not be utilized owing to the unwillingness of the villagers to contribute one-sixth of the cost of village wells in labour. These and a few other

instances cannot be the basis of any generalization; but in a country where labour for public works has, under the bureaucratic regime, meant *Begar* or forced labour and been associated with all sorts of petty oppressions and tyranny, and the public spirit in the villages is almost entirely lacking, it will not be at all easy to work up the enthusiasm necessary for carrying out any ambitious programme of development based on the hope of utilizing the co-operative labour on a large scale.

The difficulty is there; but it is necessary to remember two facts in this connection, and both of them have already been mentioned. One is that the creation of the system of village self-government itself, which is now almost non-existent, is a task for which it is necessary to set into motion all the forces which can inspire the nation with a determination to create a new order of things. If a system of village self-government full of vitality and vigour can at all be brought into being, the very effort required for producing that result will almost automatically enable us to work off the evil effects of the past traditions and evoke the enthusiasm necessary for mobilizing co-operative labour. The other fact which has to be remembered in considering this point is that without what the Agricultural Commission calls "corporate action for mutual benefit" there is no hope of providing the amenities which are absolutely essential for making the villages centres of healthy and progressive life. "The cultivator himself", in the words of the Agricultural Commission, "is not well enough off to pay for hired labour and it is certain that neither the local bodies nor the Provincial Governments can either provide the men or the finance for carrying out such undertakings."[1] The use of co-operative labour for the development of the villages can be hopefully anticipated as a natural incident of the development of the village self-government and an inevitable method

[1] Vide *The Agricultural Commission Report*, para. 421.

of making it function for the vital ends of corporate life.

The Agricultural Commission relies upon a voluntary revival of the old tradition of corporate action for mutual benefit for radically improving the amenities of the village. The revival of the habit of corporate action has to be voluntary in the sense that it is to be based on the active consent and co-operation of the people. There is no possibility of using coercive action of the kind which has to be used so often in the past, and the memory of which is likely to haunt for some time to come, for making co-operative labour available for the betterment of the village life. Education in practical civics will necessarily mean awakening a sense of duty and necessity in the matter of rendering of co-operative labour and creating public opinion strongly opposed to any tendency on the part of the individual to evade his obligation; but once the conditions necessary for the introduction of a scheme of this kind have been established, the contribution of labour will assume the character of a tax and become obligatory. Provision for using co-operative labour will have to be made in the village self-government acts by empowering the Panchayats to levy, besides the Village Rate, taxes for specific purposes or general improvement which may either be paid in money or in labour. Most villagers will, owing to their poverty, have no option but to contribute their share in kind, and being used to hard manual work will not find the necessity of having to work for the Panchayat unduly irksome. The people, who are sufficiently well off to pay in cash, will thereby be voluntarily assessing their ability to pay and can have no grievance on that score. The use of co-operative labour will really mean levy of additional taxation, but will not involve money payments for most of the people in the villages and the element of coercion, which is an essential element of all taxation, will have to be reduced to a minimum in this case.

It was stated in the last Chapter that the town and village improvement must be a very important part of the preventive health work of the local bodies. In towns and cities the opening up of the congested areas and clearing the old, insanitary living quarters must involve the use of dynamite and an amount of expense which will offer stubborn opposition to the execution of any extensive schemes of town improvement. But in the villages the conditions are different and more favourable for the carrying out the schemes of the improvement of the dwelling houses. Most of the houses in the villages are mud and thatched or tiled houses. These houses require extensive repairs almost every year, which not unoften amount to having to build them anew fairly often. The relaying out of the villages and rebuilding of houses, therefore, present problems, which are difficult enough in all conscience, but which are not of the same magnitude as the problem of replanning the towns. India is a country of insanitary dwellings and her towns and villages both stand in urgent need of radical improvements. But the problem of re-housing the rural population, though stupendous in aggregate, can be dealt with in very small parts; and the very fact, that in the villages the houses are so very unpretentious and liable to constant renewals, makes it easier to envisage the possibility of replacing the existing villages by less depressing and healthier centres of habitation. The use of co-operative labour will make the realization of this possibility less chimerical than it otherwise is likely to appear. Demonsttrations of the model houses in the exhibition, on which we have so far relied for improving the living conditions of our rural population, will not carry us far. We need schemes of model villages containing model houses which we may be able to carry out by drawing upon all the reserves that we have at our disposal. Among them the reserve of idle labour in the villages, is the most important and ought to be fully drawn upon for re-housing the people and relaying out the villages.

The Village Rate, the Land Cess and the Labour Tax, to give the idea of co-operative labour a concrete financial term, will be the three important sources of revenue for the Panchayats; but besides these and the grants-in-aid, they will have at their disposal several petty sources of revenue which each Panchayat will have to introduce according to the circumstances of the village. If the Panchayat is charged with judicial functions and can levy fees and fines, the revenue derived from them should, of course, be added to the village fund. In some of the village self-government acts there is a provision empowering the Panchayat to impose, besides the specified taxes, any other tax with the approval of the Provincial Governments. There ought to be some check on the fiscal innovations which the Provincial Governments may authorize the villages to make, and provision will have to be made to prevent the adoption of undesirable fiscal expedients. But subject to this safeguard, the Panchayats should have the liberty to make their own fiscal experiments and such adjustments as their special circumstances may render desirable or necessary.

The unsuitability of the District Boards as units of rural self-government and the present unsatisfactory position of the sub-district boards, for which it is convenient to use the term. Local Boards had been referred to already. Local Boards, before the recent changes, had their separate statutory functions and sources of revenue in Madras, and there are no District Boards in Assam, their place being taken by Local Boards there. But in the other Provinces either the Local Boards do not exist or occupy a very subordinate and insignificant position in the system of rural self-government. The necessity of constituting a body like the Local Board has been recognized ever since 1882, and the impossibility of making the District Board the principal unit for developing self-government in the rural areas has also been admitted. But in spite of the clear statement of policy in the Resolution of

1882, the strong recommendation of the Decentralization Commission and the conclusive logic of facts, the District Boards continue to be practically the only institutions which really matter in the system of rural self-government in India. And as the area and size of districts make it impossible for the District Boards to acquire the necessary cohesion and vitality for functioning an efficient unit of self-government, the whole system is lacking in the essentials of healthy growth and progress.

The only way to give local self-government a fair chance in rural area is to constitute units of administration having jurisdiction over smaller areas and populations. The experience of over half a century has demonstrated the soundness of the policy laid down in Para. 10 of the Resolution of 1882. "The Governor-General in Council considers," it was stated in the Resolution, "it is very important that the area of jurisdiction allotted to each Board should in no case be too large. If the plan is to succeed at all, it will be necessary to secure among the members both local interest and local knowledge"; and in order to secure the combination of local interest and local knowledge it was specifically required that the area to be placed under a Local Board should not exceed the smallest administrative unit of the district. In spite of or rather because of the fact that these instructions have been respected more in breach than in observance, it is necessary to constitute the Local Boards as the primary units of local administration and abolish the District Board altogether. Several Provincial Governments, in their Memoranda submitted to the Simon Commission[1], reiterated the importance of having smaller units of local administration; but none of them suggested the substitution of the Local Boards for the District Boards for the purposes of rural self-govern-

[1] Vide *The Simon Commission's Report* (1) Vol. VII p. 162. (2) Vol. VIII. p. 63. (3) Vol. X. p. 143.

ment. They relied upon the development of the Panchayats for gauging the local needs of the rural areas and providing for them. Village Panchayats must, of course, be the groundwork of the whole system of self-government; but even if they are constituted all over the country and become strong and efficient in the discharge of their duties, the District Boards will continue to have areas and population under their jurisdiction which will be unmanageable for administering local affairs properly.

The only objection to replacing the District Boards by the Local Boards can be that the latter can co-ordinate the activities of the local bodies over a wider area and in that way perform a very useful and important function. The Decentralization Commission was against the abolition of the District Boards[1] though it strongly recommended the grant of independent powers and resources to the Local Boards. If, secondary education, medical relief and construction and maintenance of main roads are provincialized, the Local Boards will be able to discharge the remaining functions of the Rural Boards as well as the District Boards can be expected to do. In some cases it may be necessary to have joint boards of the Local Boards for certain specific functions or for recruiting staff for certain services. There should be provision for inter-local co-operation in all cases, and in matters relating to health, education and communications there should be central guidance, co-ordination and planning, but the actual work of local administration should be entrusted to the Local Boards, and their revenue derived form a part of the yield from the Local Cess, their share of the receipts from the Sales Taxes, profits of the remunerative enterprises and miscellaneous sources of revenue like tolls, pound fees, etc. There is no room for both the District and the Local Boards in rural self-government if the Panchayats can take over

[1] Vide *The Decentralization Commission Report*, paras 737-38.

the administration of the local affairs of the villages; and of the two, it is suggested, the Local Boards have a much greater likelihood of developing into really self-governing institutions.

A word may be said, in conclusion, about the relations of the Local Boards and the Village Panchayats. Panchayats are now, in most cases, placed under the administrative control and supervision of the District Boards, and their budgets have to be approved by them. The District Boards are too far removed from the Panchayats to guide or help them in the administration of their affairs; and they have, in some cases, assumed unsympathetic attitude towards them. Local Boards will be in a better position to exercise supervision over them owing to their smaller area; but even they will not know enough about their affairs to offer any helpful guidance; and control exercised by them is likely to become either mechanical or actually obstructive. For guiding the Panchayats through the early stages of their development and making them the channel for the promotion of the policies of general welfare, it will, as stated already, be necessary to have Development Officers who will be in constant contact with the working of the Panchayats and be in a much better position than the Local Boards to exercise regulatory supervision over them. Besides the Development Officer, the Revenue and Audit Officers will also be in a position to afford valuable assistance to the Panchayats in financial mattersand ought to be charged with the duty of doing their very best to help them in the administration of their finances.

LECTURE X

ADMINISTRATION AND REGULATION OF LOCAL FINANCE

An efficient system of administration is absolutely essential for a wholesome state of local, as of all public, finance. Efficiency of the financial administration of the local authorities depends upon the integrity and competence of the staff, and a proper system of budget making, accounts and audit. Integrity and competence of the staff is a factor of primary importance, and cannot be ensured merely by instituting the right procedure of transacting financial business and providing a system of checks and counter-checks on the conduct of financial affairs. The only way to get honest and efficient men for carrying on the financial administration of the local bodies is to pay them well and make the conditions, under which they have to work, consistent with a sense of security of tenure and their self-respect. At present these conditions do not exist over almost the entire field of local administration, and the result is that the system is unable to command the service of able and conscientious men. The standard of work in the local services is definitely low, and there is a great deal of waste and misappropriation of funds. With the democratization of the constitutions of the local bodies the conditions have become even worse, and the tendency to bring "politics" into the administration of local services has introduced some new factors which can produce serious and disturbing effects. Deterioration in the standard of administration has not gone very far, though the fact that it has been low all along makes any further lowering a matter of grave concern.

The process, however, once started is sure to gain momentum and acceleration; and it is necessary to take effective measures not only to stop the progressive worsening of the standard of administration but to raise it to a much higher level of efficiency than it has attained so far. This can be done by raising the scale of salaries, eliminating favouritism and 'pull' in the matter of appointments, and insisting on the possession of proper qualifications for the assumption of public responsibility. It s not within the scope of these lectures to deal with the various problems of recruitment, payment and organization of local services. But it is necessary to point out that the financial autonomy of the local bodies is not impaired by providing safeguards against the possibilities of maladministration which are inherent in the system of representative government. The members of the local bodies have, since 1920, shown a tendency to interfere in the day-to-day administration of the local bodies, taken an undue amount of interest in appointments and transfers and used teachers in the primary schools for electioneering purposes and other party ends. The situation has been complicated further by the fact that owing to the exigencies of national politics the powers vested in the local bodies have been used to promote policies which, whatever their value from the standpoint of accelerating the political progress of the country, had no direct relation to the problems of local administration. But if we are alive to the dangers of mixing up party politics with the administration of local services, and want to provide conditions for raising their standard to a much higher level of efficiency, we must reorganize them with a view to getting good value for the expenditure of local funds.

Some of the higher officers, like the Health Officer, the District Engineer and the Executive Officer, are even now appointed either by or with the approval of the Provincial Government. But in view of the extension and development of local services it is also important

that provision should be made for the recruitment of the rank and file on terms which may be attractive for men of real quality. It is necessary to take local services out of politics and have some methods of selection and appointments which may give us results not very different from those which we expect from appointments in all-India and provincial services. True economy in administration consists in spending public money to the greatest advantage. That can be best done by employing men who, in their person and through their judgment and ability, can promise best return for the outlay of public funds. This is as much a problem of financial, as of general, administration and its satisfactory solution is very important from the financial standpoint.

It is, however, not enough to ensure the employment of competent men. We must also have the right system of financial administration. In the case of the local bodies a certain measure of external control is necessary for the efficiency of administration and harmony and integrity of the financial system of the country. Local bodies are subject to the control of the Provincial Governments; but the control of the Government of India is confined to a few matters and even in those it is exercised through the Provincial Governments. In taxation the only control exercised by the Government of India is that no tax, which is not included in the schedule of taxes which can be levied without their permission, and for the levy of the Terminal Tax in places where it was not levied before the 1st April, 1937.

Local self-government is and ought to be a provincial subject, and, therefore, it is proper that the Government of India should not have any direct dealings with the local authorities. But it has been already pointed out that they, in relaxing control over them in the matter of the octroi and terminal taxation, have exceeded the limit of necessity and even safety. The tendencies, which have been in operation during the Reforms decades

point to the need of the Government of India re-establishing a large measure of control over the policy and administration of indirect local taxation and keeping themselves informed of developments from time to time. It should be the duty and function of the Finance Department of the Government of India or the National Finance Commission to watch over the system of taxation of the country as a whole and prevent it from giving rise to the internal strains and stresses owing to short-sighted or thoughtless action on the part of the central, the provincial or the local authorities. It has been emphasized already that, from the point of view of the tax-payer or that of the economic interests of the country, the tax-system has to be dealt with as a whole or, in other words, its integrity has to be kept intact. Local authorities can, with the very best intentions, sometimes take action highly prejudicial to the real interests of the nation. But cases are sure to arise in which even their intentions will not be above reproach. Central supervision of the working of the whole tax system is, therefore, highly desirable and ought to be a feature of the system of the financial administration of the local bodies. The question of central control of borrowing by the local bodies and of a large measure of centralization of all public borrowing in India has already been discussed in Chapter VII; here it is enough to add that great and urgent as is the need for the development of social services, any tendency to overstrain the use of public credit ought to be resolutely resisted and any undue growth of local indebtedness checked by the action of the central authorities.

The control of the Government of India must, however, be limited to these two matters. In either matters the supervision and control must be the function of the Provincial Government. Though there must arise cases in which the Provincial Government has to take preventive and even punitive measures, as a rule, the supervision by the Provincial Government must

have as its *raison d'etre* the co-ordination of the functions, activities and purposes of the local authorities. Methods by which this co-ordination is to be promoted is a matter which requires careful consideration and constant vigilance on the part of the Provincial Government. It is comparatively easy to issue orders and instructions aiming at securing uniformity of policy and action among the local authorities; but guidance which will result in unity without uniformity calls for supervision of and another order and has, as its object, integration which not only allows but also involves a great deal of differentiation. This kind of guidance can be provided only by an authority which is aware of its real function in the system of local self-government and knowing the somewhat undefined and indefinable but nevertheless definite character of its task assiduously seeks to deal with matters of which it has to take cognizance in a spirit of constructive opportunism. The Provincial Governments have, therefore, to recognize that the powers of superintendence, direction and control over the local bodies which are, or ought to be, vested in them have to be exercised with due regard to the positive purpose which they have to fulfil in the scheme of local self-government.

In financial matters the function of the Provincial Government should be to give advice and assistance and anticipate difficulties instead of overcoming them after they have actually arisen. They have to guide and co-ordinate and thereby obviate the necessity of taking penal measures. The power of suspending and superseding, which they possess and have exercised on a number of occasions, has to be held in reserve, but used only when the situation calls for the adoption of very drastic measures and cannot be managed otherwise. Their use, if it is frequent, is as much a confession of failure on the part of the Provincial Governments as a condemnation of the local authorities. In the last two decades, owing to the period of high political tension through which we have been passing, the action taken

by the Provincial Government against the local bodies has often been attributed to political motives; and it has not been easy to reassure the public that the Provincial Governments' intentions were absolutely above suspicion. This is unfortunate; but with the grant of complete autonomy to the Provinces the position should undergo a change, and if the communal and party passions do not mar the exercise of the supervisory powers by the Provincial Governments, it should be possible for them to so shape and develop their policy of administrative co-ordination as to inspire confidence in their good faith and in their willingness and ability to guide rather than control the local authorities.

The powers vested in the Provincial Governments in the matter of taxation are not excessive and have not been exercised to discourage fiscal enterprise on the part of the local authorities. As already pointed out, the local authorities in India need a stimulus rather than a check on the use of their taxing powers. There are statutory limits above which taxes cannot be raised in certain cases and the reduction of tax-rate in the case of the indebted local bodies requires the previous sanction of the Provincial Governments. In the levy of the octroi and terminal taxation the control exercised by them cannot be relaxed, and there is a very good case, as already explained, for making it more efficient and supplementing it by the control of the Government of India. In the case of the tolls, the taxes on animals and vehicles and the Profession Taxes, it is also necessary to prescribe the maximum rates by law or administrative action. The Sales Tax has, of course, to be administered by the Provincial Government and its administration regulated by the Government of India. But there does not seem to be any justification or necessity for laying down limits for the Property Taxes and the Local Cesses. If these taxes are assessed on the capital value of property and assessment is centralized, the local bodies can and ought to be permitted to determine the rates according

to their needs and circumstances. It may perhaps be necessary to prescribe the minimum rates in some cases, but that can best be left to the working of minimum standards of efficiency, which, of course, have to be the basis of the whole local administration. Local authorities will need the stimulus of the enlightened public opinion to develop fully their revenues. The Provincial Governments have, however, to help them by giving expert guidance and making known the facts of the situation. There is, at any rate, no need for the maintenance of the maximum tax limits in the case of the Property Tax and the Local Cesses. The tax-payer can very well, as a matter of fact, generally too well, protect himself by the use of his vote.

In the efficiency of financial administration the preparation and execution of budget must, of course, play an important part. The form of the budget, the time and procedure of its preparation and its approval by the local authorities and the Provincial Government is laid down by the law or the rules made thereunder. The budget is prepared by the Chief Executive Officers or the Chairmen of the Corporations or Boards on the basis of the information provided by the Heads of the various Departments. It is considered by the Standing Committee of the Board and submitted to the Board itself which has the power to pass it finally in most cases. In some cases, however, the budget, before it is put into execution, has to be sanctioned by the District Officer, or the Commissioner, or the Provincial Government. The budgets of the indebted local authorities are scrutinized by the Provincial Government to ascertain whether adequate provision has been made for the payment of interest and sinking fund contributions, though in the case of the Bombay Presidency the Government has not even reserved to itself this power.

In the preparation of budgets it is very important that there should be unity of control and the demands of the different departments should be co-ordinated and

fitted into a plan. Without this unity of control it is not possible to ensure that the public expenditure will be properly balanced and some departments will not be unduly pampered and others actually starved. The financial administration of the local authorities is, comparatively speaking, simple, and it is not necessary, as in the case of the Central and Provincial Governments, to have a Special Department for the purpose of exercising this co-ordinating and balancing functions. The Central and Provincial Finance Departments exercise what is called treasury control over the other departments, i.e., the demands of the various departments have to be submitted to the Government and the Legislature through them to secure the consideration of the needs of each department with reference to the needs of the other departments or of the Province and the country as a whole within the limits set by the actual and potential revenues. Equilibrium in expenditure is as necessary in the case of the local authorities as it is in that of the central authorities; but the procedure according to which the budget has to be prepared by the executive officer and submitted through the Finance Committee to the Board is sufficient for achieving this purpose if they are all fully aware of the need for, and importance of, avoiding the haphazard or ill-considered allocation of public funds.

In the case of the Central and the Provincial Governments there is another safeguard provided against the planless appropriation of public revenues for different purposes; and that safeguard is that the Legislatures do not possess the power of initiating financial proposals. They can reduce or reject the demands submitted by the Government, but they cannot vote more money for a grant than the amount asked for in the budget or reduce one grant to find money for some purpose unprovided for in the Government proposals. This provision makes the budget what it ought to be, a unified and well-balanced financial plan prepared by the Exe-

cutive for the consideration and sanction of the Legislature. The Boards of the local bodies perform both the deliberative and the administrative functions; and it is, therefore, not possible to deprive the members of the local bodies altogether of the power of initiating proposals. But it is necessary that there should not be any log-rolling among the members interested in the adoption and incorporation in the budget of the different proposals. The proposals of the individual members should be submitted to the Board in the form of Resolutions well in advance of the time of the preparation of the budget and if passed by it, turned over to the Executive for incorporation in the budget along with the other proposals, all of which should be considered together at the time of passing the budget. The value and importance of the budget lies in the fact that it gives the representatives of the people opportunity for reviewing all the financial operations of the Executive in the past and apptoving of its entire financial plan based on its forecasts of the future. Anything which comes in the way of this retrospect of the past and forecast of the future being considered and dealt with in its entirety is, therefore, likely to lead to wasteful and ill-balanced expenditure and ought to be avoided.

The budget once passed has to be put into execution; but in the course of the year a change in circumstances may make a corresponding change in the operation of the financial plan necessary. It is, therefore, undesirable to make the budget a very rigid plan, and provision has to be made for increasing expenditure on one head by using the savings under another or provide for higher expenditure by drawing upon the balances or the surplus of the year. Reappropriations or supplementary appropriations, as this change in the object of expenditure or its increase are respectively called, have to be provided for. The local bodies are empowered to pass proposals for reappropriations or supplementary appropriations; but as these proposals have to be con-

sidered individually and on that account their relative importance, cannot be properly estimated or discussed, it is highly desirable that such proposals should be reduced to the minimum necessary for making the budget a workable and flexible plan of financial operations.

The financial year of the local bodies, like the financial year of the Government of India and the Provincial Governments, begins on the 1st April. It has been shown elsewhere[1] that the adoption of the 1st April as the commencement of the financial operations of the year is due to the undue deference paid by the British Government in India to the theory and practice of financial administration in Great Britain, and has nothing to do with the facts of our economic life or the needs of our financial system. The result is that the budgets in India have to be prepared months before the effects of the monsoon, the one dominant fact of the Indian economic life, on the public revenue and expenditure of the country, can be known or allowed for in the calculations of the future. The rural local bodies in India are dependent upon the Land Cess, the receipts from which are partly determined by the agricultural operations of the year. The receipts from Octroi and the Terminal Tax, the tolls and even the markets fluctuate with the fluctuations in the general trade of the country, which, of course, in a very large measure, so far as it can be determined by the internal causes, depends upon the timeliness and right distribution of rainfall. The necessity for changing the financial year, which has been known to exist in the case of the Central and Provincial Governments also exists in the case of the local authorities. But the financial year of the local authorities cannot be changed unless that of the Provincial Governments, if not of the Government of India, is also changed. The financial operations of the provincial and the local authorities are too closely interwoven to make it possible for the latter

[1] Vide Gyanchand, *The Financial System of India*, pp. 33-83.

to frame their budgets on a different periodical basis. The local budgets must, therefore, continue to be "a gamble in rains", though not quite to the same extent as the budgets of the Central and the Provincial Governments.

Accounts of the local authorities are maintained on 'cash' as distinguished from 'accrual' basis, and their form is prescribed by the Provincial Governments. The difference between the 'cash' and the 'accrual' basis is "that while the former takes the actual receipts and payments as the basis of account keeping, the latter is concerned with the claims accrued and liabilities incurred. The account officers in India do not take credit for a receipt, which though it has fallen due in particular year, has not been actually paid in it and do not show a charge as having been incurred unless money in payment thereof has been issued from the Treasury..... When we speak of income of a particular year, we mean the public revenues which have been collected during the period and not the dues which, properly speaking, ought to have been paid in it, and similarly the public expenditure of a year is the sum total of the amounts, which have been paid to the creditors of the State, even though the liabilities, for which the payments have been made, were incurred in the previous years"[1]. The system of cash accounts has merits of its own, but is liable to be abused in some cases. The local authorities can, by putting off the payments of certain bills or dues convert an actual deficit into an apparent surplus or reduce the magnitude of the deficit and hide the seriousness of the financial situation. Any tendency on the part of the local authorities towards carrying, as a matter of regular practice, the outstanding dues to the accounts of the next year in order to create a false sense of confidence in the management of their financial affairs can and ought to be curbed by a system of efficient audit. Some of the local authorities have actually resorted to this

[1] Vide Gyanchand, *The Financial System of India*, pp. 246-47.

virtual falsification of their accounts to cover up their financial inefficiency. But in spite of this disadvantage the system of closing the accounts of the fiscal year on the last day of the year has the merit of enabling the public authorities to exhibit their financial position with commendable promptitude and treat the new year as a unit for bringing into account all receipts and expenditure of the public authorities.

The form of accounts is, as stated above, prescribed by the Provincial Government and provides for a correspondence between the form in which the budget estimates are framed and that in which the financial transactions are posted in the account books. This correspondence is essential for reviewing the financial facts in the light of anticipations and seeing how far the latter have come true, and also for checking the receipts and expenditure from month to month during the course of the year and taking action if there is a possibility of the actual expenditure exceeding the amount provided for in the sanctioned budget estimates. In order to ensure these results it is necessary to debit to each department the amount spent by it irrespective of the purpose for which it is spent. In the classification of expenditure under the various heads and sub-heads the purpose, for which the expenditure is incurred, has to be taken into account, but on the whole each department has its own allotment and has to keep within the limits set by it, and it is a distinct advantage to maintain the accounts in such a way as to show how far each spending authority is keeping within its budget allotment. This basis of classification is technically called 'subjective' and is distinguished for the 'objective' basis of classification which relates to the purpose for which the expenditure is incurred and not to the department which incurs it and is responsible for its regularity and economy.

It is one of the most important functions of the Finance Departments to watch the central and provincial expenditure during the year and either check any

tendency to incur expenditure in excess of the budget allotments or, when the excess is inevitable, to take steps to have the allotment increased by reappropriations from one head to another or supplementary grants. A few of the very large municipalities have got separate Finance Departments of their own, but most of them have to be content with an accountant or rather a clerk, one of whose duties is to keep accounts. The responsibility for watching the progress of expenditure and anticipating the need for any supplementary measures rests upon the executive and the Board, which has, at its monthly or, in some cases, quarterly meeting, to pass accounts and compare them with the budget estimates. One of the defects which the audit of local accounts has, during the last decade, often brought to light is that the importance of this duty is not adequately appreciated and it is, therefore, not properly discharged. The utility of the budget as the operative plan of financial expenditure depends upon the authorities adhering, as far as possible, to its provisions and making it the central feature of the financial policy of the year. This holds good in the case of all public authorities, howsoever limited their income or the scale of their expenditure, and it is a matter of the utmost importance that local authorities in India should realise how very necessary it is that there should not be any slackness in making the budget an effective instrument of financial policy.

It has already been pointed out in Chapter V that the local authorities do not maintain proper capital accounts, and the distinction between the capital and the revenue transactions is neither understood nor made an essential part of the system of local accounts. In a few cases in the accounts of the water-works, the capital and the revenue accounts are separately and properly maintained. The Bombay City has, for example, got a fairly accurate, though not a complete, system of capital accounts. In the Madras Presidency, since 1921, all the capital and the revenue transactions of the local bodies are being

differentiated and exhibited in their published accounts. But taking India as a whole, it can be stated there is a great deal of confusion in the local accounts owing to the capital and the revenue transactions being all mixed up together, and the absence of any proper system of classification of capital and revenue expenditure.

This is a serious defect, and ought to be remedied. The discussion of the criteria of distinction between a capital and a revenue transaction involves a difficult question of accountancy which need not be dealt with here. But in the case of the remunerative enterprises of the local bodies or the enterprises entailing large capital outlay, it is, in the interest of good account-keeping, absolutely necessary that there should be a proper system of capital accounts. All capital expenditure of such undertakings, whether derived from the loan funds, the grants-in-aid or the local revenues should be separately shown in the accounts, and all charges on account of depreciation, replacement, interest and sinking fund liabilities together with, of course, the maintenance charges should be debited to the revenue accounts. This is all the more important because the development of local services will carry with it the necessity of the rapid development of local business enterprises with a view to enlarge local resources and provide public amenities. The continuance of the existing confusion of theory and practice will cause no end of difficulties in the administration of these undertakings and should not be permitted.

It is possible to go further and advocate the adoption of a system of cost accounting[1] in the case of the larger

[1] "The root of the word 'cost'," says a writer on Cost Accounting, "is said to be the same as that of the word 'cash,' and such root conveys the idea of fact, not of money. This being the case, one's costing record should disclose *facts* rather than mere financial information, such as is shown by the ordinary accounting system." The aim of cost accounting is, he goes on to say, "to reduce cost and to construct bases for future comparison and other statistical uses."

local authorities in order to maximise the benefit of local expenditure. The system of cost accounting is being very widely used in the United States of America and England and is considered very advantageous from the standpoint of true economy which, of course, consists not in the reduction of expenditure, but in getting the best value for the money spent. The system of cost accounting must be supplementary to the system of general accounts and aim at ascertaining the cost of each working unit of local administration and weighing expenditure against results to see whether what may be called the principle of equa-marginal returns is being observed in local expenditure, i.e., it should be used to make the local revenue go as far as possible by adjusting expenditure to ensure that its distribution is giving the best possible results. The introduction of the system will make the local accounts more complicated, and the decision to introduce it in a particular case ought to depend upon a careful consideration of the whole question. But in India we have to make use of every possible device to regulate our public expenditure on the basis of the maximum social advantage, and the system of cost accounting is likely to help us to attain this end. It ought to be added that any undue elaboration of the accounts of the local authorities, and specially the smaller local authorities, is to be deprecated. A good system of local accounts is to be regarded as a means to an end and not the end in itself.

The audit of the accounts of all local authorities, except the Bombay Corporation, is conducted by a Department under the control of the Provincial Government. Each Province has got its Local Fund Audit Department, which examines and reports on the accounts

The main objects of costing by local authorities, according to him are guidance of policy, security against losses and discovery of weak points in administration.

Vide J. H. Burton, *Costing Schemes for Local Authorities*, pp. 4-5.

of all local authorities. In Bombay and Bihar and Orissa special Acts[1] have been passed to provide for the audit of local accounts; and in the other Provinces there are provisions in the general Acts for the audit of local accounts by a Provincial Agency. Local audit is periodical and not continuous, i.e., the accounts of the local authorities are audited by an officer of the Local Fund Audit Department once a year, and oftener if possible, but are not audited and passed every month as is done in the case of the accounts of the Government of India and the Provincial Governments. Reports of the auditor are submitted to the Provincial Government and also forwarded to the local authorities for action. Local authorities do not seem to have appreciated the necessity of taking these reports seriously and of adopting measures to remedy the defects pointed out by the auditor. In almost all the Provinces the complaint is that the reports are treated as formal documents of no practical importance and the same defects are found to exist from year to year.

It is a matter of fundamental importance that the local accounts should be audited by an agency independent of the local authorities. It is the function of the auditor to see whether the principle of economy, regularity and order are observed in the conduct of financial affairs by the public authorities. But this function cannot be discharged well if the auditor looks upon himself, and is looked upon by the local authorities, merely as an officer whose duty it is to expose the financial sins of omission and commission of the local authorities. He has, of course, to point out defects in the local administration of financial affairs; but his duty does not end there. His duty is not only to criticise but also to help to guide the local authorities in the proper management of their finances. It is the spirit in which he performs his duty

[1] (1) The Bombay Local Fund Audit Act, 1930. (2) The Bihar and Orissa Local Fund Act, 1925.

and the view that he takes of the real purpose of his work which will enable him to inspire confidence in his ability to lead the local authorities through the maze of financial rules and regulations to the understanding of their real meaning and importance in the administration of local affairs. An orderly management of finance requires that there should be framed a certain number of rules and bye-laws, but their unnecessary multiplication is an evil which has to be avoided and emphasis laid more on vital than on technical efficiency in the administration of local finances, i.e., the purpose of audit should be not so much to secure conformity to rules and regulations as to promote the ends of true economy and educate the local authorities in the appreciation of the utility and importance of independent audit of local accounts.

Local authorities have, on the whole, demonstrated the necessity of strengthening local audit by more or less inefficient management of their finances in the last two or three decades. In the local budgets provision has been made for non-recurring expenditure without making provision for the necessary recurring expenditure. The collection of taxes has been unsatisfactory owing to increasing proportion of the arrears to the total demand, and their assessment has neither been efficient nor equitable. In a few cases balances have been unduly depleted, but in many others they have, as before, been unnecessarily large. Government orders and local bye-laws have not been observed, and the cases of short credits and overpayments have been regrettably common. The existence of these and similar other defects shows that it is necessary not only to strengthen audit but also to awaken the financial conscience of the local authorities, for without the latter the former will be of little or no avail in raising permanently their level of financial administration. But efficient and independent audit, conducted in the right spirit, can go a long way in bringing to light evils, the seriousness of which may otherwise not be

realized, and informing the whole local administration with a spirit of constructive self-criticism and constant endeavour to develop the local resources and turn them to the best account. The fact, that the local authorities already are dependent to a considerable extent on the grants for meeting their liabilities, and in the future this dependence is likely to be greater, makes it all the more important that the audit of the local accounts should be conducted by an agency under the control of the Provincial Government. Grants-in-aid have, it has already been made clear, to play an important rôle in effecting those re-adjustments which are so very necessary in the interest of efficiency and integration of the system of local self-government. The auditor of local accounts will first have to understand the purpose of grants himself and then examine their administration with a view to seeing how far that purpose is being realized in actual practice. Audit, rightly conceived and properly conducted, can be a very potent factor in the efficient management of all social and socialized undertakings.

Balances of the local bodies have to be deposited either in the Government Treasuries or in the Imperial Bank. In a few cases they have been granted permission to deposit them in the Provincial Co-operative or the so-called Central Banks, which are also co-operative institutions and serve the needs of the primary co-operative societies. Maintenance and management of the balances of the public authorities is a banking function, and has been taken over by the Reserve Bank. It is highly desirable that the public cash balances should be centralized and managed with a view to secure the greatest possible mobility and economy in their use. The existing provision for having a common till for all public authorities is in the interest of financial stability and efficiency and ought to be continued.

It is necessary to constitute a Board in each Province for exercising supervisory and co-ordinating function in local self-government in financial, as in all other,

matters. The question of constituting such a Board has been under consideration for quite a long time;[1] and though in one or two cases Boards with advisory functions have been formed, the idea of having a body with definite administrative functions has not materialized. At present all matters, which will require the sanction or come under the review of the Provincial Government are dealt with by the Secretary, Local Self-Government, Department who works under the orders of the Minister responsible to the Legislature. The ultimate control of, and responsibility for, local self-government must, of course, rest with the responsible Minister; but it is necessary that he, in the discharge of his duties, should be assisted and guided by those who, individually and collectively, may be expected to bring knowledge and experience to bear on the formulation and administration of policies. The Local Government Board, to

[1] The proposal for the creation of Local Government Boards was considered for Bengal in 1882, but negatived by the Secretary of State. Lord Morley referred to it in his despatch of the 27th November, 1908, observing that it should be considered "how far, in each Province it would be desirable to create a department dealing exclusively with these local bodies, guiding and instructing them correcting abuses in a form analogous to the operation of the Local Government Board in this country." The question came up for consideration before the Decentralization Commission in 1909 and was rejected by them. Indian public opinion has, all along, been in favour of the creation of such a Board and several Indian witnesses and Mr. R. C. Dutt, the only Indian member of the Decentralization Commission, strongly supported the proposal. A Resolution was moved in the Imperial Legislative Council in 1914, recommending the creation of Local Government Boards. In the Resolution of 1918 the Government of India suggested for the consideration of the Provincial Governments the constitution of "a central body which should co-ordinate the experience of the local bodies and provide improved control and guidance." In his despatch of the 20th November, 1918, the Secretary of State referred to this proposal but pointed out that the Board could only perform advisory functions, and could not take the place of the permanent establishment of trained officials and experts. In the Provinces in which the Local Government Board has been constituted it, as stated in the text, is a purely advisory body.

give it a convenient name, ought not to be a department of the Government in the ordinary sense of the word. It should be given an independent status and a large degree of discretion within very wide limits. The Minister should be competent to override its decisions and assume full responsibility for the enunciation of the policy and action; but, ordinarily, he should depend upon influencing its decisions rather than controlling them, and that influence should be exercised from within and not from without. The Board, in other words, ought to be conceived as an institution, one among others, by which new ideals of government and self-government have to be realized. The full evolution and effectiveness of these institutions will, owing to their experimental character, be a question of time and experience; but if the end in view is clearly envisaged and borne in mind, it will perhaps not be too much to expect that in due course instruments of considerable degree of efficacy will be forged for the purpose of social co-ordination and integration.

The function of Local Government Boards, in the financial sphere, should be to guide, stimulate and co-ordinate the activities of the local authorities; but that will necessarily involve a certain amount of control, which, if exercised with due regard to its purpose, will have to be reduced to a minimum. The Provincial Governments have had to take drastic steps of suspending and superseding a number of Municipalities and District Boards in the last two decades owing to the maladministration of their finances. This power will have to be reserved to the Provincial Government in the future; and generally used only on the advice of the Local Government Board. But the success of the Board will be measured by the extent to which it renders the recourse to these sanctions unnecessary and develops a technique by which it will rectify defects instead of penalizing the local bodies for defaults. It will have to remain in constant touch with local administration

of finances through its staff of experts and bring home to them the need for taking action when there are grave dangers ahead. But it will do more than that; it will evolve policies for the guidance of the local authorities and pilot them through the years of strenuous development which lie in front of us.

The Local Government Board will have to frame, with the help of the Education, the Health and the Roads Departments, programmes of development and devise measures for putting them into effect. The fullest development of taxation and the right policy with regard to loans and the grants-in-aid will have to be ensured, and in the administration of the sources of revenue and services a high standard of efficiency will have to be maintained. Most of the Provinces have their Road and Public Health Boards. It may perhaps be even necessary to have the Provincial Education Boards. These Boards will be more or less advisory bodies; but if their advice is given the weight which it ought to, they will give it with a due sense of responsibility and on a full consideration of facts and the ends in view. But the administrative supervision over the local bodies ought to be exercised by the Local Government Boards in all matters concerning revenue and expenditure, as, of course, in all other matters; and it ought to be the agency through which the fullest and well-co-ordinated development of local self-government is to be secured.

The constitution of the Local Government Board is a matter which calls for very careful consideration. This Board is not to be one of the advisory committees which are often established by ministers of departments for the purpose of reference and consultation. It will exercise continuous control and guidance through its own permanent staff and occupy a position of special responsibility in the system of provincial administration. A Board of five members, one of whom should be minister of Local Self-Government, will probably do for the purpose. Three other members of the Boards should

represent the experience of actual administration of the local authorities, two of the rural and one of the urban authorities. The fifth member should be the Chief Auditor of Local Accounts, who will, through the discharge of his professional duties, acquire a good insight into, and intimate knowledge of, the financial administration of the local authorities, and be able to give valuable advice and assistance to the Board in the execution of its function. The Minister will, of course, be the Chairman of the Board and guide its deliberations. But the three members, who will be expected to have first-hand knowledge of the problem and facts of local administration, will provide the realistic element necessary for the successful working of the Board. The Board will, it may be repeated, be an organ of control, guidance and development and have to experiment with various methods before it attains full degree of functional efficiency.

This concludes our discussion of almost all the major problems of local finance. These are not, it ought to be obvious by now, the problems of finance in the narrow sense of the word; they are really problems of national reconstruction. In the solution of these problems we have, therefore, to bear in mind their supreme importance from the wider standpoint. Local self-government is to be the foundation of our national self-government and a means for securing the fullest development of social services. These two objects are of co-ordinate importance, and though at times they are likely to lead to the adoption of conflicting policies, there is not only no inherent disharmony between them, but they are mutually complementary and have to be viewed as such. The fullest possible development of local self-government will also involve the fullest development of local services and will, of course, necessitate the fullest development of local resources and the maintenance of high level of financial efficiency.

APPENDIX I

Revenue and Expenditure of the Presidency Towns in 1870-71

	REVENUE				EXPENDITURE		
	Calcutta	Bombay	Madras		Calcutta	Bombay	Madras
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	10.36	6.93	2.16	General Administration & Collection of Taxes	2.80	1.40	·81
Octroi	..	5.95	..	Conservancy	1.56	3.46	1.95
Water Tax	5.18	3.66	..	Water Supply	4.48	3.57	..
Conservancy Tax ..	..	2.13	..	Lighting	2.19	..	..
Lighting Tax	2.14	2.45	..	Roads and Buildings ..	3.45	6.35	·88
Professions Tax ..	2.42	..	·68	Hospitals and Sanitation	..	5.24	..
Tax on Animals and Vehicles	1.02	2.50	·54	Education	..	..	..
Tolls	..	..	·49	Police	2.78	..	1.07
Liquor and Tobacco Licences	..	3.04	·10	Debt Service	4.45	·97	..
Miscellaneous	..	..	..	Miscellaneous	..	.90	..
Non-Tax Revenue ..	..	1.80	..				
TOTAL ..	21.12	23.89	3.97	TOTAL ..	21.71	21.89	4.71

APPENDIX II

Revenue and Expenditure of the Presidency Towns in 1881-82

	Revenue				Expenditure		
	Calcutta	Bombay	Madras		Calcutta	Bombay	Madras
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	R (lacs)	Rs. (lacs)
House Tax	10.00	10.58	3.42	General Administration	..	..	..
Octroi	..	6.37	..	& Collection of Taxes	3.01	2.85	1.04
Water Tax	3.94	5.24	1.19	Conservancy	10.61	8.01	2.41
Conservancy Tax ..	..	2.81	..	Water Supply	5.78	..	..
Lighting Tax	2.52	..	·41	Lighting	2.35	..	·71
Professions Tax ..	2.85	..	·56	Roads & Buildings ..	7.56	9.16	1.94
Tax on Animals and	..	..	..	Hospitals & Sanitation	.39	·01	·16
Vehicles	1.58	2.33	.16	Education	..	..	..
Tolls	..	..	..	Police	3.12	3.87	..
Police Rate	3·07	..	..	Debt Service	10.08	7.47	.92
Liquor and Tobacco				Miscellaneous	·30	6.43	·05
Licences	..	3.05	·14				
Miscellaneous	3.58	..	·62				
Non-Tax Revenue ..	3.96	7.82	..				
Total ..	31.50	38.20	6.50	Total ..	43.20	37.79	7.23

APPENDIX III (a)

Revenues of the Municipalities in the Various Provinces in 1881-82

	Bengal	Bombay	Madras	N.W.P. (U. P.)	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	(Rs. lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	8.24	2.58	4.31	·62	1.03	·25	·21
Octroi	..	15.14	..	20.74	21.39	6.50	..
Water Tax	..	..	..	..	·01	..	..
Conservancy Tax ..	2.38	3.06	..	·12	.79	·75	..
Lighting Tax ..	·31	..	..	..	..	..	..
Professions Tax ..	·01	.09	1.40	1.02	·01	·16	..
Tax on Persons ..	6.13	..	..	..	.37	..	..
Tax on Animals and Vehicles	1.52	.90	1.03	·17	·05	..	.01
Tolls	1.53	1.25	2.82	2.27	..	..	.22
Miscellaneous	1.34	4·41	1.77	3.15	1.93	3.71	.22
Non-Tax Revenue ..	2.79	1.66	1.12	2.35	1.24	·23	.28
Grants	·73	·51	1.23	.35	·28	·10	.17
TOTAL ..	24.98	29.60	13.680	30.79	27.10	11.70	1.11

APPENDIX III (b)

Expenditure of the Municipalities in the Various Provinces in 1881-82

	Bengal	Bombay	Madras	N.W.P. (U. P.)	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration and Collection of Taxes ..	2.48	2.59	1.11	2.60	1.09	.94	.19
Conservancy	3.05	4.37	3.39	4.37	4.83	..	.17
Drainage	4.04	1.82	..	1.82	.77	.04	..
Water Supply	..	.29	.18	.28	.50	..	..
Lighting	1.05	.53	.52	.52	.29	..	..
Roads and Buildings	4.73	6.32	2.41	2.82	5.90	1.20	.25
Hospitals and Sanitation ..	..	.80	1.93	.80	1.83	.30	..
Education	..	.56	.86	.56	1.40	.33	..
Police	5.50	5.85	1.33	5.85	4.62	1.80	.12
Debt Service	.41	.28	.08	.45	.90	.35	.02
Miscellaneous	.77	5.30	1.51	9.53	2.08	2.03	.14
TOTAL ..	22.03	28.71	13.22	29.60	23.71	6.99	.99

APPENDIX IV

Revenue and Expenditure of the Presidency Towns in 1894-95

	Revenue				Expenditure		
	Calcutta	Bombay	Madras		Calcutta	Bombay	Madras
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax ..	16.93	18.58	4.48	General Administration & Collection of Taxes	5.30	4.74	.95
Octroi ..	..	8.88	..	Conservancy ..	6.93	13.70	..
Water Tax ..	10.45	13.88	1.74	Water Supply ..	10.68	..	..
Conservancy Tax..	3.50	6.81	..	Lighting	3.90	1.14	..
Lighting Tax ..	3.48	..	.50	Roads & Buildings ..	4.89	16.67	4.47
Professions Tax ..	3.44	..	.66	Hospitals & Sanitation	.78	.61	3.26
Tax on Animals and Vehicles ..	2.02	3.06	.74	Education	..	.87	.08
Tolls	..	..	.41	Police	..	3.14	..
Liquor and Tobacco Licences ..	..	3.49	.35	Debt Service ..	7.46	20.26	1.25
Miscellaneous ..	1.30	..	.82*	Miscellaneous ..	1.49	1.28	1.56
Non-Tax Revenue	3.91	10.12	2.47				
Total ..	44.83	64.82	12.17	Total ..	41.43	62.47	11.84

* Tax on imports of Timber.

APPENDIX V (a)

Revenue of the Municipalities of the Various Provinces in 1894-95

	Bengal	Bombay	Madras	N.W.P. (U. P.)	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	8.16	5.38	6.79	1.09	1.44	.31	.44
Octroi	..	15.94	..	27.73	27.18	5.55	..
Water Tax	1.88	1.00	1.62	.46	.33	.01	..
Conservancy Tax..	4.50	2.37	..	.19	..	..	.14
Lighting Tax	.34	..	..	..	..	..	.06
Professions Tax	.36	.09	2.41	1.46	.01	.14	.48
Tax on Animals and Vehicles ..	1.88	1.00	1.62	.46	.33	.01	.06
Tolls	1.38	2.06	3.45	.46	..	.07	.19
Miscellaneous	19.32*	20.12*	9.01*	22.50*	9.41*	6.52*	.02
Non-Tax Revenue	.60	1.87	1.53	1.11	.48	.42	.20
Grants	1.22	3.76	4.45	.80	2.60	.57	.36
TOTAL ..	40.45	53.59	29.13	55.06	41.78	14.30	1.95

* Includes figures of capital transactions.

APPENDIX VI (*b*)

Expenditure of the District Boards of the Various Provinces in 1895-96

	Bengal	Bombay	Madras	N.W.P. (U. P.)	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration ..	2.97	1.36	3.68	.56	1.23	.39	·03
Roads and Buildings	44.71	27.91	41.88	18.00	10.94	4.08	7.72
Hospitals and Sanitation ..	1.93	2.61	13.25	5.14	3.48	.76	.71
Education	12.26	15.59	11.67	12.63	6.46	2.81	1.99
Debt Service	7.36	.72	1.35	.38	.98	..	1.73
Miscellaneous	1.74	2.56	18.32	..	8.20	21.10	·67
TOTAL ..	70.97	50.75	90.15	36.71	31.29	10.14	12.95

APPENDIX VII

Revenue and Expenditure of the Presidency Towns in 1909-10

	Revenue				Expenditure		
	Calcutta	Bombay	Madras		Calcutta	Bombay	Madras
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	28.72	39.69	7.09	General Administration & Collection of Taxes	21.77	7 38	1.25
Octroi	..	14.23	..	Conservancy	..	23.47	3.49
Water Tax	21.22	20.11	4.59	Water Supply ..	..	18.80	..
Conservancy Tax ..	6.04	11.92	..	Lighting	5.87	..	·87
Lighting Tax ..	6.04	..	..	Roads & Buildings ..	4.42	3.48	14.68
Professions Tax ..	6.45	..	1.49	Hospitals & Sanitation	·62	4.62	.95
Tax on Animals and Vehicles	1.74	5.01	·71	Education	·25	2.93	.27
Tolls	..	..	..	Debt Service	24.07	33.73	4.23
Liquor and Tobacco Licences	..	4.23	.44	Miscellaneous ..	13.49	10.94	1.79
Miscellaneous ..	6.22	..	1.95	Contribution to Improvement Trust ..	..	7.80	..
Non-Tax Revenue ..	4.33	15.93	4.48				
Total. ..	81.06	111.12	20.75	Total ..	70.49	113.15	27.53

APPENDIX VIII

Revenue and Expenditure of the Presidency Towns in 1920-21

	Revenue				Expenditure		
	Calcutta	Bombay	Madras		Calcutta	Bombay	Madras
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	56.13	76.91	12.46	General Administration & Collection of Taxes	13.16	20.76	2.50
Octroi	..	21.19	1.78*	Conservancy	23.59	31.11	8.25
Water Tax	25.46	33.31	8.36	Water Supply ..	8.41	8.15	11.25
Conservancy Tax ..	8.93	21.33	..	Lighting	5.48	7.39	1.57
Lighting Tax ..	8.93	..	2.57	Roads and Buildings	11.88	24.07	15.32
Professions Tax ..	10.43	..	6.24	Hospitals & Sanitation	1.12	14.86	1.92
Tax on Animals & Vehicles	2.24	7.33	1.79	Education	1.11	16.87	.94
Tolls	..	..	.60	Debt Service	25.84	46.25	4.72
Cotton Duty (3/7ths of Net Receipts) ..	..	3.77	..	Miscellaneous ..	..	16.85	3.33
Liquor and Tobacco Duties	..	5.75	..	Contribution to Improvement Trust ..	6.43	15.71	..
Miscellaneous ..	29.56	..	..				
Non-Tax Revenue ..	10.53	28.30	5.38				
Grants	..	2.47	4.96				
Total ..	152.21	200.26	44.14	Total ..	97.02†	202.02	49.80

* Tax on Timber.

† The Expenditure chargeable to special funds is not included in this figure.

APPEI IX IX (a)

of the Ma lities of Various P ces 909

	ngal	Bombay	dra	U. P.	P ab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	14.82	7.53	11.01	2.60	3.19	·80	·67
Octroi	..	24.35	..	38.00	35.78	7·94	..
Water Tax	4.13	7.29	3.66	3.29	.52	1.80	·18
Conservancy Tax..	8.46	3.75	..	.58	·07	1.90	..
Lighting Tax	1.49	..	..	..	..	..	..
Professions Tax	·68	.17	2.27	1.59	..	·50	..
Tax on Persons	3.67	..	..	·30	..	..	·15
Tax onAnimals and Vehicles ..	2.41	1.62	2.68	·46	·55	·44	·12
Tolls	4.13	2.86	4.81	1.28	·09	·56	·17
Miscellaneous	·85	1.41	2.55	3.82	4.67	2.46	·26
Non-Tax Revenue	4.72	18.45	7.59	13.65	10.71	3.39	·62
Grants	10.36	10.86	5.30	3.54	2.80	2.02	·63
TOTAL	72	29	87	69			

APPENDIX IX (b)

Expenditure of the Municipalities of the Various Provinces in 1909-10

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration & Collection of Taxes	3.99	6.77	3.05	8.49	7.59	2.90	.26
Conservancy	14.30	11.38	9.52	14.17	7.89	5.31	.08
Drainage	5.38	7.01	.86	6.82	2.40	.42	.18
Water Supply	5.17	8.77	6.12	7.55	4.23	2.58	.14
Lighting	3.52	3.87	1.71	.65	2.24	.83	..
Roads and Buildings	7.57	10.40	10.15	9.03	4.80	3.55	.73
Hospitals and Sanitation ..	6.18	3.66	4.39	1.92	6.28	1.62	1.18
Education	1.58	11.05	4.43	3.55	4.88	2.78	1.10
Debt Service	1.57	.90	2.61	8.51	5.10	1.02	..
Miscellaneous	3.04	6.94	3.66	11.58	3.55	.57	.24
TOTAL ..	52.30	70.75	46.50	71.27	48.96	21.58	3.91

APPENDIX X (a)

Revi of District Boards in the Va Pri 909

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
Land Cess	36.09	34.00	64.98	36.54	27.83	10.48	8.94
Pounds	3.35	1.06	..	4.61	.98	3.50	·85
Tolls	..	..	16.21	5.22	..	..	..
Miscellaneous	2.31	1.94	18.65	11.65	6.10	2.53	1.67
Non-Tax Revenue	4.61	4.85	7.97	1.30	4.92	·75	..
Grants	15.66	25.70	16.74	21.76	13.60	6.96	15.19
TOTAL ..	61.96	67.55	124.55	81.08	53.43	24.22	26.65

APPENDIX X (b)

Expenditure of the District Boards for the Various Provinces in 1909-10

..	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration.. ..	2.93	1.59	4.83	2.04	2.42	1.27	.38
Roads and Buildings	44.29	35.97	75.01	36.97	23.38	9.32	9.24
Hospitals and Sanitation ..	4.17	3.79	20.56	9.21	6.60	3.34	1.45
Education	11.90	23.77	13.88	28.23	12.29	8.44	5.01
Debt Service	.46	..	3.43	..	..	..	..
Miscellaneous	2.57	3.97	5.81	2.91	8.99	1.81	.68
TOTAL ..	66.32	69.09	123.52	79.36	53.66	24.18	16.68

APPENDIX XI (a)

Revenue of the Municipalities of the Various Provinces in 1920-21

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.		
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)		
House Tax	20.90	20.59	19.59	5.68	4.10	1.44	1.-7	
Octroi & Terminal Tax	..	40.25	..	41.91	61.64	14.41	..	..
Water Tax	9.50	18.91	9.37	8.06	.74	4.16	.77	1.80
Conservancy Tax ..	13.51	3.66	..	·88	·05	3.14	1.06	5.00
Lighting Tax	2.65	..	..	..	..	..	..	..
Professions Tax.. ..	1.27	·22	4.08	1.38	·14	.97	·01	·26
Tax on Persons	4.31	..	..	4.28	..	..	.34	2.02
Tax on Animals and Vehicles	2.49	2.16	3.95	1.23	·50	·80	·25	1.36
Tolls	.96	3.10	10.35	2.86	·19	.43	·23	·82
Miscellaneous	2.61	8.12	5.99	7.87	10.02	8.02	·46	·93
Non-Tax Revenue ..	5.46	43.45	18.90	26.79	24.63	11.90	·85	2.64
Grants	7.33	17.75	20.88	9.09	9.40	4.65	2.37	11.69
TOTAL ..	70.99	138.21	93.11	110.03	111.41	49.92	7.81	34.17

APPENDIX XI (b)

Expenditure of the Municipalities of the Various Provinces in 1920-21

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar-Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration and Collection of Taxes.	5.76	15.40	16.52	13.12	11.41	6.55	.60	2.37
Conservancy	19.18	27.53	18.26	20.27	14.62	9.91	2.16	8.63
Drainage	2.78	7.20	8.27	8.78	4.11	7.63	.35	.30
Water Supply	7.07	16.81	9.18	14.66	8.67	6.23	1.41	3.50
Lighting	6.43	10.17	4.62	12.51	6.66	2.00	.36	1.72
Roads and Buildings ..	8.62	20.35	12.56	13.72	15.60	4.46	1.20	3.50
Hospitals	2.92	6.94	8.07	2.11	10.32	1.70	.19	5.41
Sanitation	1.75	2.04	2.15	4.93	1.29	.53	.13	1.81
Education	2.84	30.33	12.59	9.70	13.50	7.62	.58	1.69
Debt Services	1.68	2.82	1.49	14.92	16.89	4.76	.42	2.94
Miscellaneous	3.34	26.38	6.58	10.52	1.34	2.61	.09	2.74
TOTAL ..	62.37	165.97	100.29	125.24	104.41	54.00	7.49	34.61

APPENDIX XII (a)

Revenue of the District Boards of the Various Provinces in 1920-21

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar-Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
Land Cess..	67.47	33.62	75.25	71.11	43.94	8.62	9.30	62.99
Pounds	3.18	2.43	..	8.75	1.88	9.51	1.49	1.93
Tolls	..	..	28.86	4.62	1.82	..	1.20	4.01
Miscellaneous	10.71	4.15	44.92	7.16	21.20	6.33	..	19.08
Non-Tax Revenue ..	1.16	..	13.33	·63	4.84	·10	·15	1.12
Grants	25.38	60.49	66.00	54.11	43.76	25.90	13.59	6.05
TOTAL ..	107.90	101.29	228.36	148.38	117.44	50.46	25.73	95.18

APPENDIX XII (b)

Expenditure of the District Boards of the Various Provinces in 1920-21

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar-Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration..	4.14	4.40	7.96	6.16	6.47	5.14	1.00	3.20
Roads and Buildings ..	61.62	43.35	117.25	55.04	51.62	27.03	11.23	58.31
Hospitals and Sanitation	11.73	8.72	26.50	15.43	11.43	2.99	3.23	9.39
Education	28.49	69.64	46.79	62.78	44.41	20.96	8.14	18.95
Debt Service	..	·27	1.70	..	..	..	..	·34
Miscellaneous	7.34	3.43	21.24	12.72	8.38	5.83	1.26	4.05
TOTAL ..	113.32	129.81	221.44	152.13	122.31	61.95	24.86	94.24

APPENDIX XIII

Cash Balances of the Municipalities in the Various Provinces at the end of 1920-1921

	Total Receipts	Balance	P. C.
	Rs. (lacs)	Rs. (lacs)	
Bengal	62.37	20.46	33
Bombay..	165.97	66.99	40
Madras	100.29	23.96	24
United Provinces	125.24	24.09	23
Punjab	104.41	48.30	46
Central Provinces	54.00	12.64	23
Assam	7.49	2.24	30
Bihar and Orissa	34.61	11.78	34
TOTAL ..	654.38	210.46	32

APPENDIX XIV (a)

Revenue of the Municipalities in the Various Provinces in 1929-30

	Bengal	(1928-29) Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar & Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
House Tax	25.00	28.61	33.25	10.89	6.23	1.43	2.21	11.04
Octroi and Terminal Tax ..	..	64.26	..	66.41	69.48	27.07	..	·41
Water Tax	12.46	38.45	16.97	16.25	1.26	7.50	1.25	3.24
Conservancy Tax	18.88	14.68	..	1.24	·14	5.88	1.90	7.21
Lighting Tax	3.46	1.66	2.15	..	..	..	·20	..
Professions Tax	1.19	.64	7.13	1.41	·10	2.36	·02	·46
Tax on Persons	4.30	..	..	1.82	..	1.14	·51	1.77
Tax on Animals and Vehicles	2.30	5.65	8.44	2.90	1.47	1.06	·60	2.34
Pilgrims Tax	..	..	1.41	3.03	..	·05	..	..
Tolls	1.54	4.48	17.83	4.87	.55	..	.45	.91
Miscellaneous	3.04	25.36	11.59	4.64	13.74	6.11	.57	..
Non-Tax Revenue	8.16	33.74	32.99	40.78	33.18	13.44	1.63	4.16
Grants	15.34	21.69	19.78	8.08	13.24	6.71	2.47	10.38
TOTAL	95.67	240.22	151.54	168.32	139.39	72.75	11.81	41.92

APPENDIX XIV (b)

Expenditure of the Municipalities in the Various Provinces in 1929-30

	Bengal	(1928-29) Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar & Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration & Collection of Taxes ..	8.24	23.78	15.48	19.21	15.26	9.53	1.06	3.27
Conservancy	25.14	33.83	21.40	26.06	18.00	12.54	2.93	11.37
Drainage	5.58	28.81	6.50	8.51	5.31	2.69	.31	1.13
Water Supply..	17.24	22.58	17.83	29.76	14.10	8.22	1.74	3.07
Lighting	7.27	15.44	21.04	15.16	10.91	4.06	.57	2.37
Roads & Buildings.. ..	12.14	23.52	25.22	23.05	14.65	8.31	2.49	5.48
Hospitals	3.70	11.94	7.33	6.01	11.47	2.78	·29	2.21
Sanitation	2.67	4.37	4.94	2.29	2.39	.78	·07	.48
Education	4.81	47.88	28.67	19.37	18.06	16.63	1.14	4.01
Debt Service	1.29	..	9.75	7.13	..	..	..	..
Miscellaneous..	4.37	23.75	8.84	18.92	26.98	10.41	1.60	2.14
TOTAL ..	92.45	235.90	167.00	175.47	137.13	75.95	12.20	35.53

APPENDIX XV (a)

Revenue of the District Boards in the Various Provinces in 1929-30.

REVENUE

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar & Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
Land Cess	80.03	51.90	111.99	73.82	59.05	18.74	11.60	72.69
Pounds	3.00	5.04	..	7.92	1.81	9.24	1.52	2.98
Tolls	6.39	6.39	48.76	6.42	2.67	.83	1.92	3.61
Tax on Persons	..	..	..	2.96	..	2.33	..	..
Miscellaneous	9.34	17.75	62.85	16.10	34.74	10.10	2.33	8.41
Non-Tax Rev.	1.42	1.29	31.95	2.17	5.77	.30	..	.89
Grants	42.73	120.30	145.45	87.75	103.16	26.52	19.08	42.96
TOTAL ..	142.91	202.67	401.00	197.14	207.20	67.86	36.45	131.54

APPENDIX XV (b)

Expenditure of the District Boards in the Various Provinces in 1929-30

EXPENDITURE

	Bengal	Bombay	Madras	U. P.	Punjab	C. P.	Assam	Bihar & Orissa
	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)	Rs. (lacs)
General Administration ..	6.74	7.60	24.68	11.20	20.96	4.61	1.95	5.58
Roads & Buildings	58.52	50.54	198.36	39.25	28.12	22.03	16.26	58.32
Hospitals & Sanitation ..	31.37	12.58	35.50	26.52	34.57	4.76	5.55	19.97
Education	37.49	116.33	151.69	109.71	117.46	29.49	12.48	44.38
Miscellaneous..	6.39	11.86	..	13.03	8.25	10.00	1.56	6.90
TOTAL ..	140.51	198.91	410.18	199.71	209.36	70.89	37.80	135.15

APPENDIX XVI (a)

Incidence of Taxation and Revenue

	Bengal				Bombay				Madras			
	Incidence of				Incidence of				Incidence of			
	Taxation		Revenue		Taxation		Revenue		Taxation		Revenue	
	Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.	
1881-82												
Municipalities	..		..		1 3 6		1 9 2		0 11 10		..	
1894-95												
(1) Municipalities	0 13 7		1 7 8		1 5 6		2 5 10		0 13 10		2 5 10	
(2) District Boards	0 0 11		0 1 9		0 2 8		0 4 8		0 2 8		0 4 5	
(1895-96)												
1909-10												
(1) Municipalities	1 8 10		2 4 1		2 2 0		3 6 11		1 5 9		2 3 10	
(2) District Boards	0 1 3		0 2 7		0 2 11		0 6 4		0 3 4		0 6 11	
1920-21												
(1) Municipalities	2 13 3		4 5 9		3 11 5		6 9 1		0 14 8		3 12 0	
(2) District Boards	0 2 6		0 4 0		0 3 5		0 11 10		0 2 9		0 4 11	
1929-30												
(1) Municipalities	3 8 10		4 13 9		6 4 1		9 0 0		2 7 8		5 13 7	
(2) District Boards	0 3 0		0 5 2		0 5 0		1 0 0		0 2 2		0 14 10	
1939-40												
(1) Municipalities	3 10 1		5 6 6		3 8 0		6 12 3		3 11 1		6 12 5	
(2) District Boards	0 2 10		0 6 11		0 4 10		1 2 10		0 4 7		0 8 3	

APPENDIX XVI (b)

Incidence of Taxation and Revenue

	United Provinces				Punjab				Central Provinces			
	Incidence of				Incidence of				Incidence of			
	Taxation		Revenue		Taxation		Revenue		Taxation		Revenue	
	Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.	
1881-82												
Municipalities	0 12 0		..		1 1 7		1 6 2		1 0 6		1 10 6	
1894-95												
(1) Municipalities	1 0 7		1 10 11		1 6 6		2 0 1		1 2 0		2 1 3	
(2) District Boards (1895-96)	0 0 8		0 1 4		0 2 0		0 2 8		0 0 8		0 1 6	
1909-10												
(1) Municipalities	1 9 3		2 3 9		2 2 11		3 1 9		1 9 6		2 7 9	
(2) District Boards	0 1 3		0 2 4		0 2 6		0 4 7		0 1 6		0 3 10	
1920-21												
(1) Municipalities	2 5 9		3 12 0		3 10 2		6 12 7		2 15 3		4 12 1	
(2) District Boards	0 2 6		0 5 9		0 5 0		0 12 3		0 1 6		0 6 9	
1929-30												
(1) Municipalities	3 11 9		5 9 1		4 4 11		7 3 8		4 8 11		6 15 0	
(2) District Boards	0 2 9		0 7 1		0 5 3		1 1 10		0 3 0		0 8 2	
1939-40												
(1) Municipalities	3 10 1		5 6 6		3 8 0		6 12 3		3 11 1		6 12 3	
(2) District Boards	0 2 10		0 6 11		0 4 10		1 2 10		0 4 7		0 8 3	

APPENDIX XVI (c)

Incidence of Taxation and Revenue

	Assam				Bihar & Orissa				Bihar			
	Incidence of				Incidence of				Incidence of			
	Taxation		Revenue		Taxation		Revenue		Taxation		Revenue	
	Rs. a. p.		Rs. a. p.		R.s a. p.		Rs. a. p.		Rs. a. p.		Rs. a. p.	
1881-82												
Municipalities	..		..		..		..		..		..	
1894-95												
(1) Municipalities	1 2 11		2 4 3		..		..		..		..	
(2) District Boards (1895-96)	0 2 1		0 3 11		..		..		..		..	
1909-10												
(1) Municipalities	1 9 5		2 10 4		..		..		..		..	
(2) District Boards	0 2 10		0 5 6		..		..		..		..	
1920-21												
(1) Municipalities	2 5 9		4 10 11		1 9 4		2 13 6		..		..	
(2) District Boards	..		..		0 3 8		0 5 8		..		..	
1929-30												
(1) Municipalities	4 3 11		7 0 3		2 2 6		3 4 6		..		..	
(2) District Boards	0 3 0		0 8 9		0 5 8		0 6 7		..		..	
1939-40												
(1) Municipalities	4 0 8		6 0 2		..		..		1 2 7		5 5 1	
(2) District Boards	0 3 2		0 7 0		..		..		0 3 9		0 8 10	

APPENDIX XVII

Grants-in-aid to the District Board

	1895-96			1909-10			1920-21			1920-21			1939-40		
	Amount of Grant	Total Revenue	P. C.	Amount of Grant	Total Revenue	P. C.	Amount of Grant	Total Revenue	P. C.	Amount of Grant	Total Revenue	P. C.	Amount of Grant	Total Revenue	P. C.
	Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs		Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	
Bengal	5.11	59.11	9	15.60	61.96	25	25.38	107.90	24	42.73	142.91	30	39.46	139.96	28
Bombay	10.60	50.16	21	25.70	67.53	37	60.49	101.29	60	120.30	202.67	59	34.53	177.04	20
Madras	3.25	85.62	4	16.73	124.55	13	66.00	228.36	29	145.45	401.00	35	127.13	377.40	34
U. P.	11.29	37.84	30	21.76	81.08	27	54.11	148.38	36	87.75	197.14	44	83.10	195.89	42
Punjab	.75	30.58	2	13.60	53.43	25	43.76	117.44	37	103.16	207.20	51	88.65	194.98	45
C. P.	1.14	8.13	14	6.96	24.22	29	25.90	50.46	49	26.52	67.86	39	15.04	52.37	29
Assam	2.10	10.37	20	15.19	26.65	57	13.59	25.73	53	19.08	36.45	52	13.57	35.73	38
Burma	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bihar & Orissa	..	..	..	..	..	..	6.05	95.18	6	42.96	131.54	33	..	..	..
Bihar	..	..	..	..	..	..	..	..	..	..	..	..	44.09	129.10	34
Orissa	..	..	..	..	..	..	..	..	..	..	..	..	8.48	17.34	49
Sindh	..	..	..	..	..	..	..	..	..	..	..	..	18.58	39.22	47
N. W. P.	..	..	..	..	..	..	..	..	..	..	..	..	10.89	16.17	67
TOTAL..	24.24	282.53	9	115.56	445.99	26	295.28	874.74	34	631.50	1491.19	42	483.52	1345 20	36

APPENDIX XVIII

Grants-in-aid to the Municipalities

	1894-95			1909-10			1920-21			1929-30			1939-40		
	Amount of Grant	Total Revenue	P.C.	Amount of Grant	Total Revenue	P.C.	Amount of Grant	Total Revenue	P.C.	Amount of Grant	Total Revenue	P.C.	Amount of Grant	Total Revenue	P.C.
	Rs. (lacs)	Rs (lacs)		Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)		Rs. (lacs)	Rs. (lacs)	
Bengal..	1.23	40.45	3	10.36	55.72	18	7.33	70.99	10	15.34	95.67	16	5.93	97.74	6
Bombay	3.76	53.59	7	10.86	78.29	14	17.75	138.21	14	21.64	240.22	9	13.40	221.32	6
Madras ..	4.46	29.13	15	5.30	39.87	13	20.88	93.11	22	19.78	151.54	13	24.26	223.37	10
U. P. ..	.81	55.06	1	3.54	69.11	5	9.09	110.03	8	8.08	162.32	6	9.36	184.60	5
Punjab ..	2.60	41.78	6	2.80	58.35	5	9.40	111.41	9	13.24	139.32	10	7.68	165.28	5
C. P. ..	.56	14.30	4	2.02	21.81	9	4.65	49.92	10	6.71	72.75	9	2.89	71.28	4
Assam ..	.36	1.95	18	.63	2.80	23	2.57	7.81	33	2.47	11.81	21	2.20	13.70	16
Bihar ..	..	..	..	..	..	..	11.69	34.17	31	10.38	41.92	24	9.36	49.93	19
Orissa ..	..	..	..	..	..	..	..	..	..	..	..	..	.99	5.67	17
Sindh ..	..	..	..	..	..	..	..	..	..	..	..	..	2.72	35.44	8
N. W. P.	..	..	..	..	..	..	..	..	..	..	..	..	.76	16.68	5
TOTAL ..	12.00	245.66	5	39.71	362.14	10	88.76	665.89	10	101.61	920.76	11	..	..	..

APPENDIX XIX

Extract from the Reports of Citizens Committee on the Finances of Pennsylvania

Principles which should govern the granting of funds to local school districts :—

1. *Equalization of Ability*—State aid should be distributed in such a way as to ensure a good school to every community upon a reasonable tax rate. This may be done by making state aid dependent upon the amount of property taxable for schools but in inverse proportion.

2. *Reward for Effort*—It ought also to stimulate every school district to have better schools, thereby constantly raising the standard of education and promoting the continual progress of the life of all the people in the state. Adjusting State aid to the number of mills levied within the maximum and minimum limit prescribed by the State will assist in bringing about such a result when properly safeguarded.

3. *Special Aid*—It also ought to reward the district that takes a new and approved step in an efficient manner because of the meritorious action that such a step indicates. Direct grants for specific accomplishments will realize this end.

4. *Equality of Opportunity for All Children*—It should do all these things, not only to protect the state from ignorance in the exercise of the ballot and to provide leaders, but also to promote in every possible way the individual welfare of every individual in the state. In applying these principles to schools, it means that all forms of aid should be utilized in such a manner as to guarantee for each child that education which will best fit him for life, irrespective of the particular community in which he may happen to live.

5. *Self-Determination of Action*—State aid should also be distributed in such a way as to promote the efficient participation of citizens in the exercise of citizenship. The converse of this proposition is that it should not be so administered as to promote bureaucratic control in either state, county or local education offices. This can be accomplished, if, on the one hand, the withholding of funds by state officers is exercised only to point out the seriousness

of the shortcoming, and, on the other hand, right action on the part of local districts unfailingly meets with its reward.

The facts are that, in a fairly large number of communities of every state, we need a change in the attitude of the citizens towards the schools. These communities can frequently be led to change their ideas and to substitute right action over a sufficiently long period of years to bring about a fundamental change in their attitude towards the benefits of education. That which the citizen learns through the operation of his own action becomes established, while that which is forced upon him against his will he opposes. It is, therefore, fundamental in state aid that we leave final decisions provided the minimum and maximum standards fixed by state laws are observed, to the local communities and allow them to choose what they think is best. Such standards should ordinarily, however, permit of considerable range for freedom of action. If this is done we have stronger agencies in the making of a better government and a better society.

6. *All Districts Encouraged*—If the system of state aid is working properly, not only are the most advanced districts encouraged, and thus the entire body kept moving, but all those districts which are lagging behind are constantly stimulated to come up to the standards that have already been adopted through the experience of the more progressive.

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